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NEWS RELEASE

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FOR RELEASE _____ January 10, 2014

Auditor of State Mary Mosiman today released a report on a review of the Sixth Judicial District Department of Correctional Services (District) for the period July 1, 2008 through June 30, 2012. The review was requested by the Director of the Department of Corrections as a result of concerns regarding the relationship between the District and Community Corrections Improvement Association (CCIA).

CCIA was established in 1991 as a non-profit organization. According to its articles of incorporation, CCIA is to "maintain, develop, increase and extend the facilities and services of community based correctional service agencies of the State of Iowa, and in conjunction therewith to perform the functions of or carrying out the purposes of and assist in providing services of such community-based correctional service agencies". While it is not inappropriate for a non-profit organization to support the District's operations, Mosiman reported CCIA should support or supplement the District's functions rather than replace or supplant those duties.

The District and CCIA share 3 Board members and the former District Director also serves as the Executive Director of CCIA. While CCIA interacts with the Sixth Judicial District on a routine basis, assistance has not been provided to the other Judicial Districts within the State.

In addition to the overlapping personnel and Board members, Mosiman reported CCIA's operations are located within the District's facilities and many financial transactions were identified which involved both the District and CCIA, including reimbursements and unreimbursed costs paid by 1 entity on behalf of the other. Also, it was determined District employees performed functions for CCIA and/or were paid by CCIA. In addition, CCIA employees performed District functions and/or were paid by the District.

As a result, Mosiman identified significant concerns regarding the relationship between the District and CCIA. Specifically, the operations of the District are not consistently distinct from those of CCIA. Because of decisions implemented by the former District Director, including the sharing of staff and how certain costs are paid, what should be distinct lines between the District's operations and CCIA's operations are blurred.

Mosiman also reported the review identified \$775,716.72 of improper disbursements and \$158,094.17 of potential improper liabilities. These disbursements had a significant financial impact on the District over several years. It was not possible to determine if there were additional improper disbursements because adequate records were not available for all disbursements. The improper disbursements include \$563,113.27 of estimated costs the District paid on behalf of CCIA. The estimated costs paid by the District on behalf of CCIA include \$443,900.00 of calculated payroll costs for certain management employees and an estimated value of \$119,000.00 for District office space used by CCIA but not paid for during fiscal years 2008 through 2013.

The improper disbursements identified also include \$170,178.78 of vacation payouts to former employees, \$40,336.06 of vacation used before it was earned and \$2,088.61 of excess sick leave for a retired employee who participated in the Sick Leave Insurance Program (SLIP).

The potential improper liabilities identified consist of excess amounts awarded to 6 management employees who are participating in SLIP but have not yet expended all the benefits awarded by the District.

Mosiman also reported CCIA employees were included in the District's payroll records exclusively for the purpose of receiving the same health and dental insurance benefits provided to District employees. The cost of the insurance benefits was reimbursed to the District by CCIA. Because CCIA employees were not eligible to receive the insurance benefits, they were removed from the District's payroll records in July 2013.

Mosiman reported actions taken by the District's management staff and approved by the District's Board which had a negative impact of the financial health of the District were identified, including the District's budgeting practices and awarding management employees a greater

amount of vacation and sick leave than provided to other State employees. Mosiman reported District officials and the District's Board did not prepare a reasonable budget or exercise proper fiduciary oversight.

The lack of appropriate fiduciary oversight and the failure to ensure implementation of adequate controls over budgeted expenditures resulted in the District operating in a deficit position. The Board was aware projected revenues were not being achieved and salary increases were not funded by outside sources. However, the Board still approved salary increases and made no efforts to reduce operating costs.

Mosiman also reported concerns were identified regarding relationships between the District and CCIA in terms of their operations and certain types of financial transactions. Specifically, several District employees work on CCIA programs. According to the former District Director, CCIA staff could not handle the workload associated with all the programs CCIA administers. Mosiman reported District staff should not administer CCIA programs and District functions should not be performed by CCIA staff. Mosiman also concluded the Batterer's Education Program administered by CCIA should have been administered by the District.

In addition, Mosiman identified concerns with the following types of transactions between the District and CCIA:

- The District maintains more vehicles than other Judicial Districts. The vehicles are used by CCIA employees in addition to District employees. CCIA does not reimburse the District for any costs related to use of the vehicles, including costs for fuel, repairs, insurance, and replacement.
- CCIA pays for the costs associated with District employees to attend certain training events or conferences.
- Cell phones used by CCIA staff are included in plans established by the District; however, CCIA reimburses the District for the related expenses.

Mosiman reported it was not possible to determine how much the District paid for these types of costs.

Mosiman recommended District officials and all members of the District's Board exercise due care and require and review pertinent information and documentation prior to making decisions affecting the financial health of the District and its operations. Mosiman also

recommended District officials implement changes which ensure a clear separation from CCIA's operations, including assignment of staff and ensuring each entity is responsible for its own operating costs. In addition, Mosiman recommended the District implement a number of policies and procedures to improve the operations of the District.

A copy of the report has been filed with the Attorney General's Office and is available for review on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1260-2380-BE00.pdf> and in the Office of Auditor of State.

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**REPORT ON A REVIEW
OF THE
SIXTH JUDICIAL DISTRICT
DEPARTMENT OF CORRECTIONAL SERVICES

FOR THE PERIOD
JULY 1, 2008 THROUGH JUNE 30, 2012**

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Auditor of State's Report

To John Baldwin, Director of the
Iowa Department of Corrections:

As a result of concerns regarding the relationship between the Sixth Judicial District Department of Correctional Services (District) and Community Corrections Improvement Association (CCIA) and at your request, we conducted a review of the District. We have applied certain tests and procedures to selected financial transactions of the District for the period July 1, 2008 through June 30, 2012, unless otherwise noted. Based on discussions with District personnel and a review of relevant information, we performed the following procedures for the periods specified:


- (1) Evaluated the District's and CCIA's internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Obtained and reviewed the District's budget for fiscal years 2011 and 2012 to determine the reason for the budget deficit identified by the Department of Corrections (DOC).
- (3) Obtained and reviewed CCIA's by-laws and articles of incorporation to determine the purpose and mission of the organization.
- (4) Interviewed certain District employees to determine their job duties for the District and if any District employees were conducting CCIA responsibilities while at work at the District.
- (5) Obtained and reviewed checking accounts for the District and CCIA for unusual activity.
- (6) Reviewed documentation for all payments between the District and CCIA to determine whether the payments were reasonable.
- (7) Reviewed payroll records to determine the funding source of payments to District employees.
- (8) Reviewed all payments for out-of-state travel to determine whether it was properly authorized, properly supported, reasonable, necessary for job responsibilities, and reimbursed at the approved rate. In addition, we reviewed the travel payments to determine if the travel was paid for by the District or CCIA.
- (9) Obtained and reviewed U.S. Cellular and Verizon monthly cell phone statements to determine the reasonableness of cell phone bills.
- (10) Obtained a listing of all District vehicles to determine whether vehicle logs were completed and maintained and to determine if District vehicles were used by CCIA employees.
- (11) Obtained a listing of all drivers covered by the District's vehicle insurance to determine if any CCIA employees were covered and if CCIA reimbursed the District for vehicle insurance.
- (12) Reviewed grant agreements entered into by the District and CCIA and related expenses to determine if the expenses were allowable according to the grant agreements. We also determined if any other Judicial Districts administered similar programs.


- (13) Obtained and reviewed the District's policy for vacation and sick leave balances to determine reasonableness. We also compared the policies to other Judicial District's policies to determine consistency.
- (14) Obtained and reviewed agreements and policies for accruing and using compensatory time to determine whether the related liability was properly recorded. In addition, we determined whether compensatory time balances were paid in accordance with State guidelines.
- (15) Reviewed the amount of vacation and sick leave accrued by the District's management personnel for the period July 1, 2004 through June 26, 2013 to determine if the District complied with State's policy. We also reviewed the District's participation in the State's Sick Leave Insurance Program to determine if the District's vacation and sick leave policies were consistent with the State of Iowa's vacation and sick leave policies.
- (16) Confirmed all payments to the District from the State of Iowa and Linn County were properly deposited into the District's checking account.
- (17) Obtained and reviewed agreements between the District and Linn County which were established as a result of 2008 flooding in the Cedar Rapids area to determine if the District complied with the agreements. We also reviewed the agreements to determine if the rates charged and reimbursements from Linn County were properly supported. We also reviewed activity associated with the agreements to determine if the District properly reverted FEMA funds to the State of Iowa's General Fund.
- (18) Obtained and reviewed the report prepared by the State Public Policy Group (SPPG) to determine the objective of the review, the findings from the review and if District funds were used to pay for the review.

These procedures identified \$775,716.72 of improper disbursements, including \$563,113.27 of estimated costs the District paid on behalf of CCIA. These disbursements had a significant financial impact on the District over several years. The procedures also identified \$158,094.17 of potential improper liabilities. We were unable to determine if there were additional improper disbursements during the period of our review because adequate records were not available for all disbursements. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Review Summary and **Exhibits A** through **E** of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Sixth Judicial District, other matters might have come to our attention that would have been reported to you.

A copy of the report has been filed with the Attorney General's Office. We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Department of Corrections and the Sixth Judicial District Department of Correctional Services during the course of our review.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 18, 2013

Report on a Review of the
Sixth Judicial District
Department of Correctional Services

Background Information

The Department of Corrections (DOC) is established by Chapter 904 of the *Code of Iowa* to be responsible for the control, treatment, and rehabilitation of offenders committed under law to penal institutions. DOC is also charged with operation of the State's penal institutions, Judicial District Department of Correctional Services' programs, Prison Industries, corrections administration, and contracting with the Judicial District Departments of Correctional Services for community correctional services. In addition, DOC is responsible for accreditation and funding of community-based corrections programs, including, but not limited to, pretrial release, presentence investigation, probation, parole, residential facilities, and work release centers. The community based corrections programs also include assistance provided to offenders to aid in making their reentry into society successful and reduce the likelihood of future victims.

In accordance with section 905.2 of the *Code*, each of the State's 8 Judicial Districts are responsible for furnishing or contracting for services necessary to provide a community-based correctional program which meets the needs of the District. Each Judicial District is governed by a Board of Directors. In accordance with section 905.3 of the *Code*, members of the Board of Directors are to be selected or appointed as follows:

- The Board of Supervisors for each county within the Judicial District is to select 1 member from the Board of Supervisors.
- The Judicial District Board may appoint 2 citizen members to serve on the Board annually by December 31 for the following calendar year. If the Judicial District Board does not appoint 2 citizen members, 1 member is to be selected annually from each of the project advisory committees within the Judicial District by January 15.
- The Chief Judge of the Judicial District should appoint a number of members equal to the number of citizen members or the number of Board members from project advisory committees by January 15.

The *Code* also requires each Judicial District's Board of Directors to meet at least quarterly and to establish an Executive Committee consisting of the Chairperson, Vice Chairperson, and at least 1, but no more than 5, other members of the Judicial District's Board of Directors.

The Sixth Judicial District Department of Correctional Services (District) covers a 6 county area which includes Benton, Iowa, Johnson, Jones, Linn, and Tama counties. In addition, the District's Board of Directors (Board) has 20 members who are selected in accordance with section 905.3 of the *Code*.

The District has approximately 150 employees. Employees primarily consist of Administrative staff, Program Directors, Probation/Parole Officers (PPOs), Residential Officers, and Supervisors. The Administrative staff includes a District Director and a Division Manager.

According to the District Director's job description, the position serves as the chief administrative officer of the District under the general direction of the Board. As the District Director, Gary Hinzman performed the following job duties prior to his retirement on May 15, 2013. Bruce Vander Sanden was named the District Director, effective May 16, 2013.

- Managed programs administered by the District in accordance with the policies of the Board and DOC.
- Ensured programs complied with the rules and regulations of DOC and State statutes.

- Prepared and directed the preparation and submission of an annual budget to the Board.
- Authorized payments for payroll and other expenses incurred by the District.
- Presented information and recommendations to the Board at meetings for policy issues, budget requests, contracts, and other matters.

The Division Manager serves as an assistant to the District Director in developing and formulating policy and program direction for the District. Prior to September 2012, John Hannaford was the Division Manager. Greg Wright became the Division Manager in October 2012. According to the Division Manager's job description, the position is responsible for the following duties:

- Serves as an assistant to the District Director in developing and formulating policy and program direction for the District.
- Assists the Director in various public relations, budgetary, and other planning activities and in Board and Advisory Committee functions.
- Oversees all District and general administrative duties. Manages personnel, fiscal, and data processing functions. Coordinates grant management and grant reporting requirements. Oversees all construction and maintenance projects.

The District's primary revenues are State allocations, federal support, revenue received from other State entities, fees, refunds, and reimbursements. Federal support is primarily grants awarded to the District which the District has applied for. The majority of fees received are from the costs paid by offenders for participating in programs offered by the District. According to a District employee, refunds and reimbursements are client rent revenues and rent receivables. In addition, the District receives miscellaneous revenue, such as interest on investments. **Table 1** summarizes the revenues reported in the District's annual reports for fiscal years 2010 through 2012. As illustrated by the **Table**, the total revenues reported by the District were incorrectly totaled for fiscal years 2011 and 2012.

Table 1			
Description	Fiscal Year Ended June 30,		
	2010	2011	2012
Carry forward:			
State General Fund^	\$ 218,153.86	-	-
Local income	190,075.25	84,461.65	(206,841.45)
State allocations	13,146,693.00	13,613,012.80	13,712,506.00
Federal support	1,963,648.53	1,843,601.47	1,948,047.13
Local governments	79,248.00	79,167.80	48,585.82
Intra-State reimbursements^	-	-	663,568.00
Interest	17,498.16	29,433.53	5,522.87
Refunds and reimbursements	1,103,529.67	1,197,206.17	1,064,910.38
Fees, licenses and permits	729,785.14	711,183.05	738,964.96
Other	421,581.81	305,593.64	152,534.98
Total revenues reported	\$ 17,870,213.42	17,916,992.00	18,149,814.73
Revenues, correctly totaled	\$17,870,213.42	17,863,660.11	18,127,798.69

^ - According to the Division Manager, the State General Fund carry forward and Intra-State reimbursements reported were improperly classified. They should have been reported as local income carry forward and State allocations, respectively.

As illustrated by the **Table**, State allocations provide the majority of the District's revenue each year. According to the District's annual reports submitted to DOC, State allocations accounted for 73% to 75% of the District's total revenue for fiscal years 2010 through 2012. The State allocations referred to by the District are appropriations enacted by the State Legislature each year. In addition to the initial appropriations, each of the 8 Judicial Districts typically receives a supplemental appropriation toward the end of the fiscal year. The supplemental appropriations received by the Districts during fiscal years 2010 through 2012 are summarized in **Table 2**.

Judicial District	Fiscal Year Ended June 30,		
	2010	2011	2012
1 st	\$ 110,275	393,353	453,140
2 nd	308,214	360,912	130,853
3 rd	18,010	221,793	352,616
4 th	76,117	169,067	25,498
5 th	790,020	723,637	155,338
6 th	302,810	460,329	599,943
7 th	24,923	265,431	223,774
8 th	400,850	177,991	492,704
Total	\$ 2,031,219	2,772,513	2,433,866

The Senate Files which authorized the supplemental appropriations for fiscal years 2010 and 2011 did not specify the purpose of the supplemental appropriations. However, the "Notes on Bills and Amendments" to the Senate File which authorized the supplemental appropriations for fiscal year 2012 stated the additional funds were awarded to the Districts to fund existing filled positions. The additional funds were used each year to assist in paying salary increases. DOC was the only State agency which received additional funding for fiscal year 2012 for existing filled positions.

Expenses primarily consist of personnel services, travel, supplies, contractual services, and equipment. All disbursements are required to have supporting documentation and are to be reviewed prior to payment by the Board. All payments are to be made by check and stamped with the District Director's signature. According to Mr. Hinzman, he stamped checks himself; however, during our testing, he was unable provide an exact location of the signature stamp and who had custody of it. **Table 3** summarizes the expenditures reported in the District's annual reports for fiscal years 2010 through 2012.

Description	Fiscal Year Ended June 30,		
	2010	2011	2012
Personnel services	\$ 15,026,849.98	14,406,949.25	15,480,817.99
Travel and subsistence	149,240.58	111,219.99	115,693.53
Supplies	683,853.56	642,637.84	619,802.85
Contractual services	864,890.28	1,136,808.65	849,134.71
Equipment and repairs	963,350.69	734,833.75	935,452.52
Claims and miscellaneous	168,019.94	357,636.32	156,781.85
Plant improvement	14,008.39	118,677.04	-
Total	\$ 17,870,213.42	17,508,762.84	18,157,683.45

In 1991, the District's Board established the Community Corrections Improvement Association (CCIA), a non-profit organization which has been designated as a 501(c)(3) organization by the Internal Revenue Service. According to CCIA's articles of incorporation, CCIA's purpose is to "maintain, develop, increase and extend the facilities and services of community based correctional service agencies of the State of Iowa, and in conjunction therewith to perform the functions of or carrying out the purposes of and assist in providing services of such community-based correctional service agencies in the State of Iowa, including, without limitation thereto, the Sixth Judicial District". While CCIA interacts with the Sixth Judicial District on a routine basis, assistance has not been provided to the other Judicial Districts within the State.

The District and CCIA share 3 Board members. In addition, Mr. Hinzman served as the Executive Director for CCIA and as the District Director for a number of years. After his retirement from the District in May 2013, he continued as the Executive Director of CCIA.

CCIA includes approximately 190 employees in its payroll register, including approximately 20 full-time employees, 40 part-time, 10 seasonal employees and 120 AmeriCorps and Vista employees. However, according to District and CCIA officials we spoke with, the AmeriCorps and Vista employees are volunteers. The full time employees consist primarily of Administrative staff, Liaisons, Coordinators and Specialists.

CCIA's office is located in the District's administrative building in Cedar Rapids and provides services to the same 6 counties as the District. CCIA's Board meets and conducts business at the District's administrative building. During fieldwork, we determined CCIA does not pay the District for the office space used by its employees or its Board. The District has not established a written agreement with CCIA regarding this arrangement.

CCIA administers a number of programs to assist at-risk and high risk youth as part of an overall comprehensive approach to creating safe communities. CCIA also administers other programs which are designed to support offenders' families and improve community safety.

In early 2012, the Legislature approved a supplemental appropriation of \$599,943 for the District to fund existing filled positions. However, according to a representative of DOC, Mr. Hinzman contacted DOC and stated the District needed an additional \$800,000 to get through to June 30, 2012. Because of this additional funding request, DOC reviewed the District's budget. After reviewing the budget documents, DOC was unable to determine why the District needed further funding. In addition, DOC was unable to explain variances for certain line items in the District's budget. As a result, DOC requested the Division Managers from the First and Fifth Districts conduct an internal review of the District's financial records.

Based on the findings of the internal review, the Director of DOC requested a "formal in-depth review of the District's entire financial system." The Director also stated, in part, in his written request, "The District also supports, in some form or fashion, ...CCIA. I do not believe you can understand the District's financial system without a complete review of the CCIA functions and where their funding is obtained."

The Office of Auditor of State subsequently received a letter from the President of CCIA regarding the request from DOC. The letter stated the Board for CCIA was aware of the internal review report dated April 10, 2012 and did not view the comments the same way as DOC officials.

As a result of DOC's request, we performed the procedures detailed in the Auditor of State's Report for the period July 1, 2008 through June 30, 2012, unless otherwise noted.

Detailed Findings

The procedures performed during the review identified \$775,716.72 of improper disbursements, including \$563,113.27 of estimated costs the District paid on behalf of CCIA. These disbursements had a significant financial impact on the District over several years. The procedures performed also identified \$158,094.17 of potential improper liabilities.

During our review, we obtained an understanding of the District's financial operations and how CCIA impacted those operations. We identified actions taken by the District's management staff and approved by the District's Board which had a negative impact of the financial health of the District, including the District's budgeting practices and awarding management employees a greater amount of vacation and sick leave than provided to other State employees.

We also identified concerns regarding operating relationships between the District and CCIA and certain types of financial transactions. In addition to the overlapping personnel and Board members, CCIA's operations are located within the District's facilities and we identified many financial transactions which involved both the District and CCIA, including reimbursements and unreimbursed costs paid by 1 entity on behalf of the other. Also, we determined District employees performed functions for CCIA and/or were paid by CCIA. In addition, CCIA employees were paid by the District and/or performed District functions. As a result, there is not a clear separation between the 2 entities' operations.

In addition, we identified the following concerns with the operations of the District.

- District officials and the District's Board did not provide adequate fiduciary oversight.
- Until July 2013, CCIA employees were included in the District's payroll records exclusively for the purpose of receiving health and dental insurance benefits provided to State employees. CCIA reimbursed the District for the cost of health and dental insurance benefits.
- Adequate documentation was not maintained by the District or CCIA to support grant activity. In addition, District officials could not support financial activity related to FEMA grants for flooding which occurred in 2008. Also, several District employees work on CCIA programs.
- The District maintains more vehicles than other Judicial Districts. The vehicles are used by CCIA employees in addition to District employees. CCIA does not reimburse the District for any costs related to the use of the vehicles, including costs for fuel, repairs, insurance and replacement.

Because adequate records were not available, it was not possible to determine if additional amounts were improperly disbursed or paid by the District on behalf of CCIA during the review period because adequate records were not available for all disbursements. All findings are summarized in **Exhibit A** and a detailed explanation of each finding follows.

CONCERNS REGARDING THE DISTRICT'S FINANCIAL OPERATIONS

District Budget - As previously stated, DOC conducted an internal review of the District's budget and certain financial transactions after additional funding was requested by the District due to a shortfall in the District's budget. As a result of this concern, we reviewed supporting documentation used by District and DOC officials to determine the budget shortfall.

We also reviewed Board meeting minutes to determine if the budget shortfall was discussed. Significant actions identified during our review of the minutes are summarized in the following paragraphs:

- During the December 6, 2010 Board of Directors' meeting, the Board was notified by John Hannaford, the former Division Manager, current revenues were below projections. However, because the minutes do not reflect Mr. Hannaford disclosed how much budgeted revenues exceeded actual collections, it appears the Board may not have received this information. The minutes also do not include any discussion regarding reducing expenses to compensate for the lower revenue.

Based on periodic financial reports Mr. Hannaford prepared for DOC, the budgeted revenues for fiscal year 2011 exceeded actual collections by approximately \$100,000.00 at the time of the December 2010 Board meeting.

- On March 18, 2011, the Board was informed by Mr. Hannaford the State reduced the District's appropriation by \$780,932.00. Mr. Hannaford also informed the Board the District was behind in revenues and would need to reduce expenses, including holding vacant positions. During the meeting, it was discussed why the federal rent was down by \$217,000.00 and if holding vacant positions and reducing expenses would balance the budget. According to the minutes, Mr. Hinzman and Mr. Hannaford reported the federal budget was also very tight, but holding vacant positions and reducing expenses worked in the past and they believed it would work again.

According to the minutes, Mr. Hannaford also reported the District would be starting fiscal year 2012 with a deficit because the Legislature did not include salary adjustment funds in the District's budget. In addition, Mr. Hinzman stated the District had been running at a deficit since January 2011 because it had not received adequate funding. Despite reporting adequate funding had not been received by the District, Mr. Hinzman also reported "supplemental funding rolled over to the budget of FY2012 will get us through. There will be salary and benefit increases; assumption is that we will not get salary adjustment money."

As Mr. Hinzman reported to the Board, the Legislature did not include salary adjustment funds in the District's budget. However, this was not the first year salary adjustments had not been funded by the Legislature. In addition, the District was not the only entity to not receive salary adjustment funds. Other Districts and State agencies responded to the mandated, but unfunded, salary adjustments by not filling all open positions and/or reducing other operating costs. For instance, in fiscal year 2010, a number of entities which faced similar challenges furloughed workers for a specified number of days.

- During the June 24, 2011 Board of Director's meeting, Mr. Hinzman reported the District was projecting a little over \$10,000.00 deficit at the end of fiscal year 2011. However, the financial report sent to DOC for June 30, 2011 stated "overall year-end budget will have a deficit of \$161,804." It is unclear why the amount reported to the Board on June 24, 2011 was significantly different.
- According to the August 19, 2011 Board minutes, the anticipated June 30, 2011 balance was a deficit balance of \$161,804.00. This amount exceeds the prior amount reported to the Board by approximately \$150,000.00.
- At the October 21, 2011 meeting, Mr. Hannaford reported to the Board the District ended fiscal year 2011 with a deficit balance of \$206,902.00.

According to supporting documentation available for our review, a DOC official provided a list of questions to Mr. Hannaford regarding the fiscal year 2011 budget deficit. The first question asked was how the District accounted for the \$206,902.00 deficit balance at June 30, 2011. The deficit was not apparent in the District's accounting records. According to Mr. Hannaford's response, the deficit amount was recorded as miscellaneous revenue in fiscal year 2011 and negative

miscellaneous revenue in fiscal year 2012. He also stated the overage was not discussed with the Office of Auditor of State.

- At the November 28, 2011 meeting, the Board was informed the projected shortfall for the budget at the end of fiscal year 2012 was \$653,000.00. The Board was also informed revenue was much less than projected due to fewer residential work release clients, OWI clients, and federal clients and increased food costs. The Board was also reminded the District did not receive funding in the state appropriation for salary adjustments for the 3rd year in a row. Mr. Hannaford reported, “Everyone is working very hard to spend less.”

As previously stated, other entities responded to the mandated, but unfunded, salary adjustments by not filling all open positions and/or reducing other operating costs. These measures were taken over the course of several years, not just in years following unfunded mandates.

According to a District official, Board meetings for December 2011, January 2012 and February 2012 were cancelled. As a result, there were no minutes available for us to review for these periods.

Based on our review of the minutes and other financial information available from the District and DOC, it appears the budget and other financial information provided to the Board was frequently incomplete and/or inaccurate. Information presented to the Board at subsequent meetings was often significantly different. It does not appear the information presented to the Board consistently included accurate forecasts of financial activity for the near future. According to discussions with Mr. Hinzman, the financial information presented to the Board was prepared by Mr. Hannaford. He also indicated Mr. Hannaford’s departure from the District was not unrelated to the financial difficulties encountered by the District. However, as the District Director, Mr. Hinzman was ultimately responsible for ensuring accurate, reliable information was presented to the Board in a timely manner to ensure appropriate operating decisions could be made.

As previously stated, the Legislature approved a supplemental appropriation of \$599,943.00 for the District in early 2012 to fund existing filled positions. However, according to a representative of DOC, Mr. Hinzman contacted DOC in March 2012 and stated the District needed an additional \$800,000.00 to get through June 30, 2012. Because of this additional funding request, DOC reviewed documents submitted by District officials regarding the District’s budget.

After reviewing budget documents, DOC was unable to determine why the District needed further funding. In addition, DOC was unable to explain variances for certain line items in the District’s budget. As a result, DOC requested Division Managers from the First and Fifth Judicial Districts conduct an internal review of the District’s financial records. After performing certain procedures, the Division Managers submitted a report dated April 10, 2012 to DOC officials which summarized their findings. The concerns included in the internal report related to the District’s budget are summarized in the following paragraphs.

- The internal report stated, “According to reports generated from the state’s I3 [accounting] system, 6th District ended FY10 with a General Fund carry forward of \$218,153.86. However, it is further noted in the internal reports of the district that they also had a carry forward of local income of \$243,387.65 for a grand total of carry forward of \$461,541.51. The local income being carried forward was actually shown as new Miscellaneous Income in FY11.”

According to the Division Manager, the District is not allowed to carry forward any unused State appropriation funds remaining at the end of a fiscal year. All unused State appropriations must be reverted to the State’s General Fund. However, the

District may carryover a portion of its unused local income (which is primarily composed of fees collected from offenders for participating in various programs.) The amount the District is allowed to carry over is determined by DOC officials.

Based on the supporting documentation available for our review, we concur with the DOC officials' finding. The \$243,387.65 of local income reported by the District as Miscellaneous Income should have been reported as carry forward funds. If the District had properly reported its carry forward funds, DOC may have used a portion of the funds to assist other Districts in meeting fiscal year 2010 unfunded operating costs. The District properly reported the \$243,387.65 in fiscal year 2011 activity in the State's accounting system, referred to as the I/3 system.

- The internal report stated, "At the close of FY11, the 6th District over expended available resources by \$206,902. Instead of applying expenses to FY12, which actually supported the costs, Division Manager Hannaford added the same amount to Revenue Source 704 (Other Revenue) to 'balance' their books in the state's I/3 system. This was a 'plug figure' and there was no actual revenue to support it. Per John Hannaford, there was no attempt to contact the State Auditor's Office for advice on how to handle this although he did say he talked with staff at central office. Since FY12 revenue was used to cover this deficit, the new fiscal year started off with a deficit of \$206,902."

Based on supporting documentation available for our review, we concur \$206,902 of revenue was recorded by the District for fiscal year 2011 which was not actually collected. This was not an appropriate action.

- The internal report stated an objective of the review was to evaluate the "District's finances/budgets for fiscal years 2011 and 2012 to determine whether the reported deficit of approximately \$800,000 even after receiving their supplemental appropriation of \$599,943, was legitimate." The report also stated the reviewers believe the deficit was legitimate. It also stated, "When the 6th District opened FY12, they reported a deficit of approximately \$800,000 to Department of Corrections, defined as their unfunded salary adjustment, when realistically the shortfall was closer to \$1,500,000 when coupled with unattainable revenue projections."

A financial analysis prepared by DOC officials summarized the deficit remaining after the supplemental appropriation. The analysis is summarized in **Table 4**.

Table 4	
Description	Amount
Shortfall due to unfunded salary increases [^]	\$ 591,085.45
Shortfall due to unattainable federal rent income for FY12	588,023.42
Shortfall due to unattainable residential rent income for FY12	283,210.42
Subtotal of primary shortfalls for FY12	1,462,319.29
Less: Supplemental appropriation for FY12	(599,943.00)
Remaining shortfall for FY12	\$ 862,376.29

[^] - Cumulative effect of unfunded salary increases over several fiscal years.

As illustrated by the **Table**, DOC officials calculated a \$862,376.29 remaining shortfall after the supplemental appropriation. Their calculation included only the revenue categories which were significantly different from budgeted amounts. However, their calculation did not include all variances between the District's budgeted and actual revenue and expenditure amounts. The amount calculated by

DOC officials varied from the deficit amount of \$782,121.72 reported by Mr. Hannaford in the District's financial report to DOC dated March 13, 2012.

While we concur with the calculation of the deficit, the correct calculation does not make the deficit "legitimate." The deficit was a result of poor decisions implemented by District management and the Board. These decisions are discussed throughout this report.

In addition, required budget cuts and unfunded mandated salary increases for employees affected the District's deficit position. However, State agencies dealt with these factors by reducing discretionary spending and the number of programs administered in a timely manner. While other Judicial Districts received supplemental funding for salary increases, the Sixth District requested an additional supplemental appropriation.

- The internal report stated the District had projected unrealistic and unattainable revenue goals, including funds from federal grants for federal prisoners and refunds for state residential offenders. According to Board minutes, when the Board questioned the shortfall in revenues, District officials told them the number of offenders was down. According to the internal report, this explanation was true but accounted for only a very small portion of the actual shortfall.

Based on supporting documentation available for our review, we concur with the DOC officials' findings. In addition to reviewing DOC's internal report and related records, we also reviewed budgeted and actual activity for 2 revenue line items for which the District failed to properly budget. **Table 5** summarizes the budgeted and actual amounts for the 2 revenue line items.

Table 5		
Description	Federal Housing Reimbursement	Residential Rent Income
<u>FY10</u> : Actual	\$ 1,345,883.38	953,800.31
<u>FY11</u> : Budgeted	1,661,849.00	947,290.00
% Inc/(Dec) from FY10 Actual	23.5%	(0.7%)
Actual	1,257,540.58	1,087,364.58
% Inc/(Dec) from FY10 Actual	(6.6%)	14.0%
<u>FY12</u> : Budgeted	1,845,564.00	1,370,575.00
% Increase from FY11 Actual	46.8%	26.1%
Actual	1,242,792.00	969,894.00
% Decrease from FY11 Actual	(1.2%)	(10.8%)

As illustrated by the **Table**, the District budgeted for a significant increase in federal housing reimbursements for fiscal year 2011, but the amount actually received decreased from fiscal year 2010. In addition, the District budgeted for a 46.8% increase in the same revenue for fiscal year 2012 despite not meeting the budget in fiscal year 2011. The District also budgeted for a 26.1% increase in residential rent income for fiscal year 2012 after the amount received during fiscal year 2011 increased 14.0% from the amount received during fiscal year 2010.

We are unable to determine why District officials and the Board approved an increase of approximately 47% for Federal reimbursements and an increase of approximately 26% for residential rent income unless they had identified new funding sources or expanded the District's facilities. It appears the increases were "plugged" to identify the amount of revenue necessary to meet budgeted expenditures. To budget for such large increases is poor financial management and leadership. When preparing a budget, District officials should strive to use as realistic expectations as possible. They should be cautious to not overestimate the amount of services to be provided and revenue to be received.

- According to the internal report, DOC officials did not identify any "serious talk" of ending certain contracts in order to help with budget deficits in fiscal years 2011 and 2012. Specifically, the internal report identified treatment contracts which totaled over \$260,000 and were paid in full at the beginning of the fiscal year prior to services being rendered.

While we determined the District received the services it paid for in advance, we concur with DOC officials' finding the District should pay for costs, such as the service contracts, on a billable basis after monthly services are provided. This practice would allow the District to better match expenditures to the time periods in which services are received and provide flexibility when budgeting difficulties are encountered.

- The internal report stated expenditures for items such as Office Supplies, Food, and Other Supplies were significantly higher than other Districts of equal size. The report specified Office Supplies reported for the District was more than double the amount reported by the First Judicial District. It also specified Food was \$10,000.00 more despite having 60 fewer residents and Other Supplies was approximately \$50,000.00 more than incurred by the First Judicial District.

We reviewed the operations of other Districts and concur with the DOC officials' findings. In addition, District officials were unable to provide us with support for budgeted amounts when requested.

- The internal report stated CCIA administers the Batterer's Education Program (BEP) for the District. Annual revenues for this program are approximately \$100,000.00. However, 2 other Districts use existing staff to administer BEP. The internal report also stated, "This could be a viable option for the 6th District to increase revenues."

While we concur the District's revenues could be increased by administering the BEP, other costs may also be incurred. If existing District staff were used to facilitate the classes, some payroll costs could be shifted to the program. Additional costs may also be incurred, but the additional costs may not be significant.

As previously stated, the District provides assistance to offenders to aid in making their reentry into society successful and CCIA administers programs which are designed to improve community safety, and support at-risk youth and offenders' families. As a result, it appears it would be more appropriate for the District to administer BEP rather than CCIA.

- The internal report stated the District's budgets were not prepared in a consistent manner, including classification of expenditures, which made it difficult to compare budgeted information to actual revenue and expenditures. The report identified budgeted Personnel Services (Expenditure Class 101) as an example and specified 5 different amounts reported for fiscal year 2012. **Table 6** lists the 5 different amounts reported by the District.

Table 6

Source Document	Amount Reported
Original budget in accounting system software	\$ 15,127,920
Revised current year operating budget from accounting system (provided to Board on 08/19/11)	15,696,975
<u>Year-end amounts:</u>	
I/3 system	15,306,404
Quarterly report to DOC for Expenditure Class 101	16,050,523
Annual report submitted to DOC (Table 3)	15,480,818
Cash flow report to DOC	15,527,307

We concur with the DOC officials' conclusion. When we inquired of District officials why the amounts reported varied, we were told Mr. Hannaford, who was no longer employed by the District, was responsible for the amounts reported. We were also told no additional information regarding the amounts reported was available.

- The internal report stated the Board approved non-contract pay raises of 2% on June 24, 2011, effective July 1, 2011, and 1%, effective January 1, 2012, despite being informed of a projected deficit and knowing the pay increases were not funded by DOC. As a result, the District absorbed the increased payroll costs.

We concur with the DOC officials' findings. According to information obtained from the Division Manager, the 2% and 1% pay raises resulted in \$41,299.00 of additional payroll costs during fiscal year 2012.

Because the pay raises were not funded, District officials and the District's Board should have been proactive in identifying costs which could be reduced to offset the pay raises. When evaluating the District's financial condition and making decisions which impact it, District officials should strive to use as realistic cost projections as possible. The projected costs should be compared to conservative estimates of District revenues to determine the expected future financial condition of the District.

Mr. Hannaford, as the District's Division Manager, Mr. Hinzman, as the District Director, and the Board had a fiduciary responsibility to exercise authority over the District's funds, efficiently and effectively achieve its mission, provide oversight of the District's operations and maintain the public trust. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

Based on our observations and procedures performed, we determined Mr. Hannaford, Mr. Hinzman and the Board did not prepare a reasonable budget or exercise proper fiduciary oversight. The lack of appropriate fiduciary oversight and the failure to ensure implementation of adequate controls over budgeted expenditures allowed the District to operate in a deficit position. The Board was aware projected revenue levels were not being met and salary increases were not funded by outside sources. However, the Board still approved salary increases and made no identifiable effort to reduce other operating costs.

Paid Time Off - The Districts operate primarily on appropriations from the State and funding is provided by the State for payroll costs. In addition, District employees are included in the collective bargaining agreement which covers State employees and receive health insurance benefits under plans offered by the State. According to a representative of the Department of Administrative Services (DAS), only State employees, their dependents and retirees are eligible to participate in the health insurance plans offered by the State. As a result, individuals employed by the State's 8 Judicial Districts are State employees. While most State employees' payroll is processed by DAS, each District processes payroll for its employees. Processing payroll includes determining net pay, accruing vacation and sick leave benefits and ensuring employees contribute the appropriate amount for health and dental insurance and other benefits.

We compared the rate at which employees earned paid time off at each of the State's 8 Judicial Districts to the rate at which all other State employees earned vacation and sick leave and determined the First, Fifth, and Sixth Judicial Districts established policies which allow management employees to earn vacation and sick leave at a rate greater than other State employees and in excess of amounts allowed by the *Code of Iowa*.

We also determined the District has allowed employees to carry over unused compensatory time after the end of the fiscal year which does not comply with rules established by DAS. Our specific findings and the impact to the District's financial operations are summarized in the following paragraphs.

Vacation Accrual – Section 70A.1 of the *Code of Iowa* establishes the amount of vacation awarded to State employees based on their years of services. In addition, section 1C.2 of the *Code* establishes unscheduled holiday time for State employees, which is to be accrued as vacation. DAS has adopted administrative rules to implement these statutory requirements.

The amount of vacation and unscheduled holiday hours awarded to non-management employees by each Judicial District agrees with the amount established for all State employees. However, the amount of vacation and unscheduled holiday hours awarded to management employees by 3 Districts exceeds the amounts established by DAS. The amount of vacation and unscheduled holiday hours awarded to management employees by each Judicial District is compared to the amount established by DAS in **Table 7**.

Table 7

Entity	Vacation and Unscheduled Holiday Hours Accrued Annually Based on Years of Service for Management Employees*				
	0 - 4	5 - 11	12 - 19	20 - 24	25 or more
1 st Judicial [^]	128	168	208	224	248
2 nd Judicial	96	136	176	192	216
3 rd Judicial	96	136	176	192	216
4 th Judicial	96	136	176	192	216
5 th Judicial	128	168	208	224	248
6 th Judicial	136	176	216	232	256
7 th Judicial	96	136	176	192	216
8 th Judicial	96	136	176	192	216
DAS*	96	136	176	192	216

* - DAS rules include 16 hours of unscheduled holiday leave in addition to vacation earned based on years of service. The policy established by the 1st and 5th Judicial Districts includes 48 hours of unscheduled holiday leave in addition to vacation earned based on years of service. The policy established by the 6th Judicial District does not specify unscheduled holiday leave, but the amount of vacation accrued per pay period includes 16 hours of additional leave per year.

The additional leave awarded to management employees by the First and Fifth Judicial Districts will be reviewed and reported on in a separate report at a future date.

As illustrated by the **Table**, the Sixth Judicial District provided an additional 40 hours of vacation per year to management employees. According to Mr. Hinzman, management employees received the additional vacation hours because the employees are salaried and not eligible for overtime. This practice is in place to make it fair between union and non-union employees. However, this situation is not unique to the District. Many State employees are salaried, work more than the "typical" 40 hours per week and don't receive additional compensation in the form of overtime or additional paid time off.

Because the District's management employees received an additional 40 hours of vacation per year compared to State employees for whom DAS processes payroll and other Judicial Districts' employees, the District's financial condition was adversely affected and certain employees received benefits not available to other State employees. We obtained benefits summary reports for 47 District management employees for the period July 1, 2004 through April 30, 2013 to determine the financial impact to the District for the additional vacation awarded to management employees. Based on the reports we received, District management employees received the 40 hours of additional vacation per year for the period of our review. We were unable to determine when the District began granting the additional vacation time to management employees. However, we identified District management employees who had accrued vacation balances at July 1, 2004 which exceeded the maximum amount of vacation accrual established by DAS in compliance with section 70A.1 of the *Code*. For example, an employee had 171 more hours of vacation accrued than allowed at July 1, 2004 based on his years of service. As a result, it is apparent the District had been allowing management employees to accrue additional vacation for an extended time prior to July 1, 2004.

We also identified 2 management employees who retired from the District after April 30, 2013. For these employees, we reviewed the amount of vacation they earned through the date of their retirement and the value of their unused vacation for which they were paid upon their retirement.

Exhibit B lists the District's 30 management employees and their individual accrued vacation balances according to the District's records as of April 30, 2013. The **Exhibit** also includes the vacation balance we calculated using the accrual rates established by DAS. The calculated balances do not adjust for vacation improperly accrued by the District for the employees prior to July 1, 2004, except for reducing certain employees' vacation balances at July 1, 2004 to the authorized maximum limit established by DAS.

As illustrated by the **Exhibit**, we calculated a negative balance for 10 of the 30 employees. This occurred because the 10 employees used more vacation than they would have accrued if the DAS rates had been applied. Because the employees used more vacation than would have been accrued, the District paid the employees a greater amount than would have been allowable under DAS rules. **Table 8** lists the 10 employees and the amount of vacation taken in excess of what should have been accrued for them. The **Table** also includes the value of the vacation paid by the District, using the employees' salary rates at April 30, 2013. Some of the employees may have been paid a nominal amount less than the amount shown if they used vacation, or a portion of their vacation, prior to their most recent salary increase. As illustrated by the **Table**, the District paid \$40,336.06 more to the employees than appropriate between July 1, 2004 and April 30, 2013. The \$40,336.06 of payments to employees for vacation used prior to it being earned is included in **Exhibit A**.

Table 8

Employee Name	Calculated Based on DAS Rates		
	Excess Hours	Hourly Rate	Amount Overpaid
Jerry Allen	118.52	\$ 37.40	\$ 4,432.64
Angela Brubaker	129.30	21.06	2,723.06
Melinda Lamb	78.90	47.40	3,739.86
Brenda Larkey	33.35	29.69	990.16
Robert Metzger	123.00	43.21	5,314.83
Shari Miller	16.34	33.18	542.16
Bobbie Peters	298.29	43.26	12,904.03
Shannon Ryan	80.06	39.35	3,150.36
Kelly Schultz	36.57	30.26	1,106.61
Theresa Tometich	145.25	37.40	5,432.35
Total			\$ 40,336.06

Exhibit B also includes the employees' hourly pay rates and the value of their vacation balances at April 30, 2013. As illustrated by the **Exhibit**, the value of the employees' vacation recorded by the District at April 30, 2013 totaled \$432,867.23. However, if the vacation accrual rates established by DAS had been used, the value of the employees' vacation balance at April 30, 2013 would have been \$160,680.20. The \$272,187.03 difference has not been paid by the District, but is an on-going liability. When the employees leave the District's employment, the District may be obligated to pay employees for their unused vacation balances.

In addition to the 30 current management employees, the District previously employed 17 additional management employees. The 17 employees have retired or left employment with the District, which resulted in the District issuing checks to the 17 employees for payment of their accrued vacation balances at the time they left employment. **Exhibit C** summarizes the vacation balances and the amount paid to the 17 employees based on the District's recorded vacation balances.

In addition, the **Exhibit** summarizes the vacation balances based on the State's accrual rates to determine the vacation payout. As illustrated by the **Exhibit**, the District paid a total of \$248,177.22 in vacation payouts based on its accrual rates. However, the District would have only paid \$77,998.44 in vacation payouts had the proper accrual rates been used. As a result, the District incurred additional expenses of \$170,178.78 related to overpayment of vacation payouts. Had the District accrued vacation at the proper rate, the District's deficit position would have improved. Because vacation was accrued at a greater rate for management employees, the District paid \$170,178.78 more than appropriate, which impacted its need for additional funding from DOC.

Because the District did not comply with the vacation accrual rate established by section 70A.1 of the *Code* used for other State employees, the \$170,178.78 of vacation payout overpayments is included in **Exhibit A**.

Sick Leave Accrual – The amount of sick leave accrued for State employees and non-management employees in each Judicial District is dependent on individual employee's sick leave balances. In accordance with section 70A.1 of the *Code*, when an employee's sick leave balance is 750 hours or less, the employee earns 5.54 hours of sick leave per pay period. When the balance is more than 750 hours but not more than 1,500 hours, the employee earns 3.69 hours of sick leave per pay period. Once the employee's sick leave balance exceeds 1,500 hours, the amount earned per pay period is reduced to 1.84 hours. DAS has adopted administrative rules to implement these statutory requirements.

Table 9 compares the amount of sick leave awarded to management employees by each Judicial District to the amount established by DAS. As illustrated by the **Table**, the amount of sick leave awarded to management employees by 2 Districts exceeds the amounts established by DAS.

Table 9			
Entity	Sick Leave Hours Earned per Pay Period Based on Accumulated Balance		
	0 - 750	751 - 1,500	Over 1,500
1 st Judicial	9.23*	4.62*	4.62*
2 nd Judicial	5.54	3.69	1.84
3 rd Judicial	5.54	3.69	1.84
4 th Judicial	5.54	3.69	1.84
5 th Judicial	5.54	3.69	1.84
6 th Judicial	5.54	5.54	5.54
7 th Judicial	5.54	3.69	1.84
8 th Judicial	5.54	3.69	1.84
DAS	5.54	3.69	1.84

* - 1st Judicial District uses 2 categories for management employees: 0 – 750 hours and 750+ hours.

The additional sick leave awarded to management employees by the First Judicial District will be reviewed and reported on in a separate report at a future date.

As illustrated by the **Table**, the District awards more sick leave to management employees than other Judicial Districts and DAS. Specifically, District management employees received 12 hours of sick leave per month, or 144 annual sick leave hours, regardless of their sick leave balance. District staff we spoke with were unable to provide an explanation for the increased sick leave amounts provided to employees.

Because the District's management employees received additional sick leave hours per year compared to State employees for whom DAS processes payroll and other Judicial Districts' employees, the District's financial condition was adversely affected. We reviewed the amount of sick leave awarded by the District to all management employees for the period July 1, 2004 through April 30, 2013 to determine the financial impact to the District for the additional sick leave awarded. Based on the reports we received, District management employees received additional sick leave each year during the period of our review. We were unable to determine when the District began granting the additional sick leave time to management employees.

We also identified 2 management employees who retired from the District after April 30, 2013. For these employees, we reviewed sick leave accrual rates and balances through the date of their retirement.

Exhibits D and **E** list the 11 retired District management employees and the 36 current and former District management employees who have not retired, respectively, and their sick leave balances according to the District's records. The **Exhibits** also include our calculation of their sick leave balance. The calculated sick leave balances are based on the sick leave accrual rates used by DAS when processing payroll for all other State employees. The calculated balances do not adjust for sick leave improperly accrued by the District for the employees prior to July 1, 2004.

Up to \$2,000.00 of the value of sick leave balances can be paid out upon retirement. In addition, the remaining value can be used to pay the State's share of health insurance premiums after the employee retires until the employee becomes Medicare eligible when the employee retires under the Sick Leave Insurance Program (SLIP). As a result, we reviewed the sick leave payouts and SLIP accounts for all eligible employees. The 11 employees who had retired from the District as of June 20, 2013 and received a sick leave payout of \$2,000.00 are listed in **Exhibit D**.

We reviewed the re-calculated sick leave balances for the 11 employees who received the \$2,000.00 sick leave payout and determined all 11 employee's sick leave balances were large enough to allow the employees to receive the payout. Of the 11 employees retiring from the District, 7 elected to participate in SLIP.

According to a DAS benefits website, in order to be eligible for SLIP benefits, the employee must:

- Be employed in an eligible class, such as Executive Branch employees represented by the American Federation of State, County and Municipal Employees (AFSCME) or UE Local 893/Iowa United Professionals (UE/IUP), Executive Branch non-contract employees, and community based corrections employees.
- Have attained at least age 55 by their retirement date.
- Have applied for and received State pension benefits.
- Have a converted sick leave balance value greater than \$2,000.00 plus the cost of at least 1 month of the State's share of the employee's group health insurance premium.

After an employee is determined to be eligible for SLIP benefits, the value of the employee's sick leave balance is converted into a SLIP account balance based on a percentage of the sick leave value at the time of retirement. **Table 10** summarizes the sick leave conversion chart.

Table 10

If the sick leave balance is:	The conversion rate is:
0 to 750 hours	60% of value
Over 750 to 1,500 hours	80% of value
Over 1,500 hours	100% of value

For the 7 retired District employees participating in SLIP, we obtained the employee's "Sick Leave Insurance Program Calculation Worksheet to be used to estimate SLIP Balance" from the District to determine the employee's sick leave balance used to calculate the beginning value of the SLIP account. As illustrated by **Exhibit D**, we determined the District incorrectly converted 100% of the accumulated sick leave value to a SLIP account for 3 of the 7 employees. The correct conversion rate for these 3 employees should have been 80%. **Table 11** summarizes the beginning value of the SLIP account calculated by the District for the 3 employees. The **Table** also includes our calculation of the beginning value of the SLIP account based on the sick leave accrual rates established by DAS for State employees and the applicable conversion rate.

Table 11

Description	Deb Drahos	Gail Juvik	Jean Kuehl	Total
<u>Per District Records:</u>				
Number of Hours	1,867.50	1,802.20	1,918.45	
Conversion Rate	100%	100%	100%	
Converted Number of Hours	1,867.50	1,802.20	1,918.45	
Related Benefits	\$ 72,187.03	69,619.43	89,836.20	231,642.66
<u>Correct Calculation:</u>				
Number of Hours	1,445.70	1,288.30	1,470.45	
Conversion Rate	80%	80%	80%	
Converted Number of Hours	1,156.56	1,030.64	1,176.36	
Related Benefits	43,910.64	39,357.63	54,712.35	137,980.62
Difference	\$ 28,276.39	30,261.80	35,123.85	93,662.04

As illustrated by the **Table**, the difference between the District's calculation and the correct calculation resulted in \$93,662.04 of additional benefits deposited to the 3 employees' beginning SLIP account balances. Because factors such as the cost of future premiums are variable, we are unable to determine what portion of the additional \$93,662.04 of benefits will be used by the employees prior to their eligibility for Medicare. Therefore, the total is included in **Exhibit A** as a potential improper liability.

For the remaining 4 retired employees participating in the SLIP program whose sick leave was properly converted, we re-calculated the employee's beginning balance of their SLIP account because the District did not use the proper sick leave accrual rates. **Table 12** summarizes the beginning balance of the employee's SLIP account according to the District and the beginning balance of the employee's SLIP account based on our re-calculation of sick leave hours.

Table 12

Retiree	Retirement Date	SLIP Account		Variance
		District Balance	Calculated Balance	
Cynthia Engler	05/31/11	\$ 103,286.74	73,349.49	29,937.25
Jane Mason	09/04/08	6,861.01	4,772.40	2,088.61
Michael Meeks	05/11/11	90,143.50	66,580.25	23,563.25
Steve Street	08/30/07	70,418.21	59,486.58	10,931.63
Total		\$ 270,709.46	204,188.72	66,520.74

As illustrated by the **Table**, the District calculated SLIP account balances totaling \$270,709.46 for the 4 employees. If the proper sick leave accrual rates had been applied, the SLIP account balances would have been \$204,188.72. Therefore, the District overstated the beginning balance of the 4 SLIP accounts by \$66,520.74.

Of the 4 retired employees listed in the **Table**, only Jane Mason has expended the SLIP account balance calculated for her by the District. As a result, the excess \$2,088.61 is included in **Exhibit A** as improper disbursements.

Because factors such as the cost of future premiums are variable, we are unable to determine what portion, if any, of the remaining \$64,432.13 of benefits included in **Table 12** will be used by the employees prior to their eligibility for Medicare. Therefore, \$64,432.13 is included in **Exhibit A** as a potential improper liability.

Because District employees are State employees, the State's vacation and sick leave accrual rates should have been used to ensure all State employees received the same benefits. The District allowed employees to earn more sick leave than the State's accrual policy allowed, which resulted in employees retiring from the District have significantly higher sick leave balances and were accruing sick leave hours at a significantly higher accrual rate than other State employees.

Because the District has awarded more sick leave to management employees than most other Judicial Districts and DAS, the District may incur more costs for SLIP than appropriate. As a result, the District should ensure the sick leave balances of management employees are properly adjusted before retirement benefits are calculated.

Compensatory Time - For the fiscal years ended June 30, 2010 through 2012, the District reported to DAS the District did not have a financial obligation for unpaid compensatory time earned by employees. However, the District did have an obligation to a number of employees. Specifically, the District owed the employees the amounts specified in **Table 13**.

Table 13

Fiscal Year	Balance Due at June 30,
2010	\$ 2,940.69
2011	6,417.97
2012	5,702.05

District officials provided us an agreement between the District and the American Federation of State, County and Municipal Employees (AFSCME) Iowa Council 61 dated December 20, 2007. The agreement states Residential Officers can carry compensatory balances for 2 months after the end of the fiscal year. According to District officials, the agreement was established because Residential Officers were unable to use all of the compensatory time they had earned prior to June 30 each year because of their scheduled job duties. The District agreed to allow 2 additional

months for the Residential Officers to use their earned compensatory time because the Residential Officers preferred to use the time rather than be paid for it.

According to section 5.32 of DAS' Managers and Supervisors Manual, Residential Officers are not allowed to carry-over compensatory time. In addition, compensatory time which cannot be carried over must be paid out at the end of the fiscal year.

According to a representative of the District, the agreement was signed in 2007. However, Residential Officers did not take advantage of it until 2010. During our fieldwork, we were notified the District has discontinued this practice and the Residential Officers would no longer be allowed to carry over the unused compensatory time.

Based on our review of the District's payroll records, the Residential Officers were paid for their earned compensatory time prior to June 30 during fiscal years 2008 and 2009. If the Residential Officers would have preferred to use the compensatory time rather than be paid for it and this option was available to them during fiscal years 2008 and 2009, it is unclear why they would have received the payouts prior to June 30 each year.

During our review of e-mail communications between Mr. Hinzman and DOC officials, we identified a message sent by Mr. Hinzman on July 12, 2012. The e-mail stated, in part, the practice of allowing Residential Officers to carry over unused compensatory time "saves the District money." This is not an accurate statement. At best, allowing the carry over delays the payroll expenditures and allows the expenditures to be paid with subsequent fiscal year funding. However, the District incurs additional costs for any employee who receives a pay raise after June 30 of any fiscal year prior to using and/or being paid for the carried over compensatory time. It is not unusual for pay raises for District employees to be effective July 1.

Federal Emergency Management Agency (FEMA) Funds - As a result of extreme flooding in Cedar Rapids in 2008, individuals being held in the Linn County Jail were relocated to other facilities, including the First, Sixth, and Eighth Judicial Districts, Anamosa State Penitentiary, the Iowa State Penitentiary, the Iowa Correctional Institution for Women, the Iowa Medical and Classification Center, and the Mt. Pleasant Correctional Facility. According to DOC officials, the Districts and other DOC facilities housing the relocated prisoners were instructed not to use per diem rates when billing Linn County for housing the prisoners because FEMA had previously disallowed any costs which were not actual costs.

We obtained and reviewed supporting documentation from Linn County for the District's reimbursement requests and payments received from Linn County. We also obtained and reviewed information from the District identifying the amount expended from Linn County reimbursements and the amount reverted to the State.

The documents we reviewed identified the District billed Linn County for housing prisoners each month from June 2008 through April 2009 on a per diem basis. A Linn County official we spoke with stated the County received reimbursement on September 20, 2012 from FEMA for 90% of the total paid to the District. The remaining 10% of the costs to be reimbursed to the County by the State was received February 22, 2013.

Table 14 summarizes the amount the District billed Linn County for housing prisoners and the amount the District reverted to DOC.

Table 14	
Description	Amount
Amount billed to and received from Linn County	\$ 870,841.49
Amount the District reverted to DOC	(297,232.24)
Amount retained by the District	<u>\$ 573,609.25</u>

As illustrated by the **Table**, the District reverted \$297,232.24 of the funds collected from Linn County to DOC. The funds were reverted on June 25, 2010. Each of the other facilities which housed Linn County prisoners reverted all of the funds they received from Linn County to DOC. DOC then reallocated the reverted funds among the facilities to restore each of the facilities to their condition prior to housing the additional prisoners. The District was the only facility housing Linn County prisoners which did not revert all of the funds it received. According to DOC officials we spoke with, all of the funds the District received from Linn County should have been reverted to allow proper recording and tracking of the federal funding from FEMA which ultimately paid for housing the prisoners. This would also allow for proper reallocation of the funds. It is unclear why DOC officials did not require the District to revert all funds received in a timely manner.

As previously stated, the District billed Linn County from June 2008 through April 2009. Payments were received in a timely manner. As a result, the District should have reverted the funds received from the County at the end of fiscal year 2009 rather than at the end of fiscal year 2010. In addition, a small reversion may have been payable at the end of fiscal year 2008. DOC officials did not question District officials about the reversion which had not been made at the end of fiscal year 2009. According to the DOC officials, they incorrectly believed a reversion of approximately \$850,000.00 at the end of fiscal year 2009 was related to the funds from Linn County. However, the reverted funds were unspent appropriations for the ANCHOR Center, a location in Cedar Rapids which provides residential and outpatient services. This information did not come to DOC officials' attention until June 2012 when staff from the Legislative Services Agency (LSA) requested a copy of the reversion check related to the payments from Linn County and reimbursements from FEMA. When District staff submitted a copy of the reversion check and corresponding internal memo dated June 27, 2012, DOC officials learned the reversion was for unspent ANCHOR Center appropriations.

By reviewing State accounting records to which DOC officials had access, we confirmed the reversion at the end of fiscal year 2009 was composed of unspent State funds from the ANCHOR Center's appropriation unit. It is unclear why DOC officials were unable to readily determine the reversion was unspent State funds rather than payments from Linn County which were reimbursed with FEMA funds.

In addition, the District was the only facility to not follow DOC's instructions on how to bill Linn County for housing prisoners. The other facilities billed Linn County based on actual costs rather than a per diem rate. The per diem rate the District charged to Linn County is summarized in **Table 15**. When we asked District officials for support for the amounts listed in the **Table**, they were unable to provide any additional information.

Table 15	
Inmate Costs	Per Diem Rate
Rent	\$ 41.12
Food	4.32
Personal care items	1.22
Laundry	0.95
Uniforms	0.58
Total per diem charged to Linn County	\$ 48.19

Based on documentation available for our review, District officials worked with DOC at the beginning of the flood to ensure compliance with FEMA requirements. However, the District discontinued working with DOC in August or September of 2008 and instead worked through

Linn County. When we asked Mr. Hinzman why the District discontinued working with DOC, we received an e-mailed response. A copy of the e-mail is included in **Appendix 1**. As illustrated by the **Appendix**, Mr. Hinzman's response included the statement, "The long term care of the [Linn County] jail prisoners became more costly than our budget could absorb. If not for that we would have told Linn County we would keep them for nothing." The District's budget was not established for the purpose of housing county prisoners, nor was the District's State appropriation meant to cover these costs. It would not be appropriate for any District Director or District Board to allow these funds to be used for any purposes other than District operations.

According to District officials we spoke with, the \$573,609.25 retained by the District included \$328,981.88 of costs spent by the District to repair damages caused by housing Linn County's prisoners. We reviewed documentation provided by District officials to confirm the \$328,981.88 of costs spent by the District were to repair the facility.

District officials also stated the remaining \$244,627.37 was "regular local income" the District lost because they were unable to house individuals in need of services in their community. According to District officials, these individuals included participants in OWI treatment programs and other services. Because District officials did not have any documentation to substantiate the number of individuals who would have received services or the individual amounts the District would have billed for the services, we are unable to support the \$244,627.37 retained by the District.

While the District incurred costs to repair the facility and was not able to house and serve other individuals who would have generated income for the District, these factors should not have reduced the amount the District reverted to DOC. As previously stated, the District was the only facility housing Linn County prisoners which did not revert all of the funds it received. Had the District reverted the funds, DOC could have reallocated the funds necessary to repair the facility and "replace" the lost income.

RELATIONSHIP BETWEEN THE DISTRICT AND CCIA

As previously stated, CCIA's articles of incorporation state CCIA's purpose is to "maintain, develop, increase and extend the facilities and services of community based correctional service agencies (CBC) of the State of Iowa." This indicates CCIA intended to support (emphasis added) the Districts' operations. The articles of incorporation also state CCIA's purpose is "to perform the functions of or carry out the purposes of and assist in providing services" of community based correctional service agencies in the State of Iowa. This indicates CCIA intended to also operate in a similar capacity as the Districts.

Because the Districts are established by the *Code of Iowa* to perform certain functions, it is not appropriate for an organization to appoint itself to operate in the same capacity. CCIA should support or supplement the District's functions rather than replace or supplant those duties.

The Iowa Attorney General's Office provided a Letter of Advice dated April 22, 2008 to the Office of Auditor of State regarding the transfer of public funds to private non-profit organizations. The Letter of Advice provided by the Attorney General's Office stated, in part:

- "Past opinions of this office have consistently concluded that a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes and performs work which the government could perform directly."
- "The Iowa Constitution prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, section 31 states: "No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly."

- “Delegation of control: The transfer of public funds to a private non-profit corporation also raises concerns regarding the delegation of the discretion of the governing body of the government entity over the use and expenditures of the funds.”

While the Letter of Advice received from the Attorney General’s Office discusses donations and gifts to private non-profit organizations, payments made by the District on behalf of CCIA effectively achieve the same result as donations and gifts to private non-profit organizations. The following paragraphs discuss payments made by the District on behalf of CCIA.

As previously stated, the District and CCIA share 3 Board members and the District Director served as the Executive Director of CCIA in addition to his role at the District. Also as previously stated, the Director of DOC reported the District supports CCIA. Because of the unique relationship between the District and CCIA, we reviewed certain financial transactions between the District and CCIA. We also reviewed available documentation to determine if certain payments between the District and CCIA were appropriate, reasonable, and properly supported.

Grants - As previously stated, the District’s and CCIA’s primary revenue sources include grants. Most grants provided by a County, the State and the federal government have strict guidelines for the use of grant funds, including maintaining supporting documentation in order to ensure all expenses are within the guidelines.

The grants administered by the District are primarily structured to provide services to offenders. Many of the grants are funded by a county, the State, and federal agencies. The grants administered by the District are not unlike those administered by other Judicial Districts. The grants administered by CCIA are broader in scope and can be structured to provide services to offenders and/or their families and address community improvement issues. Many of the grants are funded by non-profit organizations and local sponsors, such as United Way, Bank Iowa, and Veridian, although grants are also received from counties, the State, and federal agencies. The types of grants administered by CCIA typically are not provided by other Judicial Districts. Jean Kuehl, the District’s Assistant Director, prepares the grant applications for essentially all of the grants received by the District and CCIA.

We reviewed all District grants which had a period of availability during fiscal year 2012. We also reviewed the related supporting documentation, such as grant agreements and invoices, to ensure expenses incurred under the grant agreements were properly supported and allowable.

During our review of grants administered by the District, we identified 6 programs which were awarded to the District but were administered by CCIA. The District established a sub-contract with CCIA to administer the 6 programs funded by the Iowa Department of Human Services (DHS). The programs and the related periods of availability, amounts awarded, and amounts expended are summarized in **Table 16**.

Table 16

Program	Period of Availability	Amount Awarded	Amount Expended
CPPC Coordination	07/01/11 – 06/30/12	\$ 30,000.00	16,143.57
Family Support Workers^	07/18/11 – 06/30/12	125,000.00	184,207.59
Parent Partners	07/01/11 – 06/30/12	135,000.00	134,967.68
Family Reunification	07/01/11 – 06/30/12	61,137.02	54,310.34
DHS Family Liaison	07/18/11 – 06/30/12	55,959.00	55,609.62
Youth Development	01/17/12 – 06/30/12	16,414.00	10,799.83

^ - CCIA used funding sources other than the grant for the additional costs incurred.

We reviewed the contracts to determine if the District or CCIA was responsible for administering the programs outlined in the contracts. According to the contracts, the programs which received funding are part of the Partnership for Safe Families Initiative administered by CCIA. Because the funding was received from DHS for each of the 6 programs, we contacted the local DHS office in Cedar Rapids and the DHS central office in Des Moines to determine if DHS was aware of the relationship between the District and CCIA.

According to the individuals we spoke with, the District's role in administering the programs was intended to be as a fiscal agent when the programs were established a number of years ago because the funds were required to be awarded to a governmental entity. They also stated the language in the grant agreements has not changed even though the funds no longer need to pass through a governmental entity.

According to DHS representatives, DHS was aware CCIA was the entity receiving the funds even though the District was awarded the grants. The DHS officials also confirmed CCIA applies for the grants each year and DHS provides the reimbursements for grant expenditures directly to CCIA rather than the District. In addition, the DHS representatives stated the grants should be awarded to CCIA rather than the District, but they have not updated the language used in the grant agreements each year to reflect what actually happens.

We also discussed the process with District representatives to determine if CCIA was receiving the funding or if the District received the funds. According to District representatives, the District does not receive any of this funding. It all goes to CCIA. During our review of CCIA accounting records, we identified collections from DHS for the programs. CCIA applied for the grants and the grants are on a reimbursement basis. Therefore, CCIA submits reimbursement requests to the District, which provides the claims to DHS. The reimbursement requests submitted by CCIA for program disbursements should be supported by appropriate documentation.

We reviewed the reimbursement requests submitted by CCIA for the 6 programs listed in **Table 16**. In addition to testing the 6 programs which were passed through the District to CCIA, we also reviewed other programs administered by CCIA.

During our review of the "Each One Reach One Offender Mentoring" project funded by the U.S. Department of Justice, we determined CCIA included District staff salaries as in-kind match in the program's summary report. For the remaining programs we tested, we determined 155 transactions listed on the summary pages for the individual grants were not supported by documentation. The transactions for which support was not located total \$82,551.89.

Because the grants are awarded to CCIA for a CCIA program, we have not included any costs in **Exhibit A**. However, because the grants do not require a governmental entity to be the fiscal agent, the funding should be provided directly to CCIA and the District should discontinue the practice of being the pass-through entity.

As discussed in the following paragraphs, several District employees work on CCIA programs. According to Mr. Hinzman, this occurs because CCIA staff cannot handle the workload associated with all the programs CCIA administers. If District staff are available and capable of administering a program or grant, the program or grant should be administered by the District rather than CCIA. In addition, District functions should not be performed by CCIA staff. In accordance with the *Code of Iowa*, the District is responsible for carrying out certain functions and those responsibilities should not be delegated to other parties.

Payroll – As previously stated, DOC requested Division Managers from the First and Fifth Judicial Districts conduct an internal review of the District's financial records. After performing certain procedures, the Division Managers submitted a report dated April 10, 2012 to Department of Corrections (DOC) officials which summarized their findings. The report stated, in part:

“In a copy of a CCIA payroll requested by Correction’s staff payment date 1/25/2012, there is a total of 110 payees with 41 (37.3%) also being employees of 6th Judicial District. While CCIA is an established 501(c)(3) non-profit agency with all the capability to exist as a separate entity from the Sixth Judicial District, it appears boundaries have become so blurred between the two agencies that it is next to impossible to separate one from the other.”

When we requested detailed payroll information, CCIA staff informed us CCIA does not process its own payroll, nor do they keep detailed payroll records. The only information available from CCIA for payroll was the net amount recorded in CCIA’s general ledger along with the related payroll taxes. However, CCIA was able to provide us with a detailed listing of employees’ payroll information for the pay period ended January 25, 2012. This is the same information provided by CCIA to the District officials who prepared the internal report.

The detailed information provided for the January 25, 2012 pay period included 13 District employees. Only 5 of the 13 employees received compensation for the pay period. The records provided showed no hours were recorded during the pay period for the remaining 8 employees. While the employees received their pay from the District, CCIA reimbursed the District for the \$5,831.74 of net pay recorded for the employees along with the related payroll taxes. We confirmed the District received the reimbursement from CCIA.

The limited general ledger information regarding payroll available for our review included periods from fiscal year 2009 through the current fiscal year. CCIA reimbursed the District for certain payroll costs throughout this period. Because records prior to fiscal year 2009 were not available, we are unable to determine when CCIA began reimbursing the District for District employee’s time.

During our review of documents supporting payments from CCIA to the District, we identified a number of reimbursements CCIA made to the District for payroll costs of District employees who administered programs on behalf of CCIA. According to CCIA staff we spoke with, the individuals were employed by the District but “contracted out” to CCIA. As a result, the employees were paid by the District and CCIA periodically reimbursed the District for the payroll costs. Based on the documents we reviewed, not all of the reimbursements were made in a timely manner. We also determined the reimbursements included the proper amount for the time allocated to CCIA duties. However, because detailed time records were not available, we were unable to determine if the time allocated (such as 5%, 10% or 25% of an employee’s time) was correct.

While CCIA staff we spoke with referred to the individuals as “contract employees”, no one was able to provide us with copies of the contracts which supported the payments made by CCIA to the District or could explain the specific terms under which the District contracted the employees’ services out to CCIA. Based on the supporting documentation available, the District billed CCIA for half or less of certain employees’ payroll costs. We were unable to determine if the positions filled by the employees were necessary for District operations since the employees were not working for the District on a full-time basis.

According to Mr. Hinzman and based on our observations, CCIA’s Finance Officer is the only administrative staff member employed by CCIA. As previously stated, CCIA’s office is located in the District’s administrative building. CCIA’s Finance Officer’s office is located in the same area of the building with administrative staff of the District. There is no physical separation between CCIA’s operations and the District’s operations.

During our review of the documents, we also identified communications between Mr. Hinzman and various parties regarding providing additional compensation to 4 District employees who were managing CCIA programs in addition to their District duties. The communications are described in the following paragraphs.

- On June 4, 2009, Mr. Hinzman sent an e-mail to members of the CCIA Board of Directors which stated, in part:

“I realized that a District administrative employee was actually getting paid about \$6,000.00 less annually than a CCIA program employee So in effect I have a District administrative employee fulfilling all their District job responsibilities plus managing CCIA AmeriCorps program with 15 members and there appears to be a pay equity issue As I have reflected up on this issue I think the reasonable thing to do is to provide a contract with CCIA for \$6,000.00 annually to compensate the administrative assistant for managing the AmeriCorps program. As soon as I thought that I realized that 3 other people on my admin team are also managing CCIA programs that significantly increase their workload Therefore I believe it would be fair to contract with each of the other 3 for \$5,000.00 annually as long as they are managing these programs. I am seeking the approval of the CCIA Executive Board to sign these contracts once they are developed.”

The administrative employee initially referred to in the e-mail was Angela Brubaker, Mr. Hinzman’s Administrative Assistant. The 3 additional employees referred to include Clinical Services Director Melinda Lamb, Assistant Director Jean Kuehl and Bruce Vander Sanden, the Assistant Director prior to Mr. Hinzman’s retirement.

We reviewed minutes from the CCIA Board meetings held during 2009 and did not identify any notations regarding Mr. Hinzman’s request.

- On June 17, 2009, Mr. Hinzman received an e-mail from an employee of the Department of Administrative Services (DAS). According to the e-mail, he had requested clarification on whether a private foundation could pay District employees for additional work performed for managing programs of the foundation. In the response to Mr. Hinzman, the DAS employee provided a copy of Senate File 478, section 22, which stated, in part, “Effective July 1, 2009, employees of the executive branch, judicial branch, and legislative branch shall not receive bonus pay unless otherwise authorized by law, required pursuant to a contract of employment entered into before July 1, 2009, or required pursuant to a collective bargaining agreement....”

The response did not address whether a private foundation could pay District employees for additional work performed for the foundation. However, Mr. Hinzman responded to the DAS employee’s e-mail with the message, “Thanks Jeff for clarifying the issue for me. I just wanted to make sure that a private foundation could pay our employees for additional work they are doing to manage programs of the foundation and do not use state appropriated money per Senate file 478, Section 22....”

- On June 25, 2009, Mr. Hinzman sent an e-mail to the DOC Director regarding the pay issues with the 4 District employees managing CCIA programs. The e-mail included the response from the DAS employee regarding additional compensation and the draft contracts for the 4 employees for additional pay.
- On July 1, 2009, the Director of DOC responded to Mr. Hinzman with questions regarding the additional pay contracts. Specifically, he asked:
 - Are the 6th District employees that are being paid by CCIA receiving an additional IPERS benefit?
 - Is any of this work done on normal business hours?

- Are these the only 6th District folks that work for CCIA?
- Does CCIA receive client fee money?

Mr. Hinzman replied to the DOC Director's e-mail the same day stating, in part, "The District employees do address program issues in a timely manner during work hours which requires them to work additional hours. These are all employees that have flexible hours. However, the overall program management and responsibility and working evenings and weekends on these programs are the basis for these contracts Many staff of the Sixth District have for years worked as facilitators (when they are off-duty) for CCIA programs and receive a fee for that"

We are unable to determine specifically to whom Mr. Hinzman was referring.

- On August 4, 2009, Mr. Hinzman sent an e-mail to the CCIA Executive Committee stating the members of management were offered a contract and declined. According to the former Director, the members of management preferred providing the extra service to CCIA without compensation.

The e-mails identified illustrate representatives from DOC and DAS were informed in 2009 District employees were administering programs on behalf of CCIA and Mr. Hinzman intended to seek additional compensation for District employees. It is unclear why steps were not taken at that time to ensure a proper segregation of duties between the District and CCIA.

The report prepared by the Division Managers from the First and Fifth Judicial Districts also included examples of "perceived blurred boundaries and questionable processes." The report included the following findings/areas of concern:

- The salary of Jean Kuehl was listed in the District's personnel system. According to the District's Table of Organization, Ms. Kuehl's duties included certain programs administered by CCIA, including Youth Development, Children of Promise, Foster Grandparents, Youth Leadership, Circles of Support, Faith-Based Initiatives, AmeriCorps – EORO, and Partnership for Safe Families.

The DOC internal report stated minutes from the last several years of District Board meetings included reports made by Ms. Kuehl which revolved around CCIA programs and activities. According to the report, Mr. Hinzman confirmed to the Judicial District Managers CCIA did not reimburse the District for any of Ms. Kuehl's time spent working on CCIA activities.

When we spoke with Ms. Kuehl, she stated her duties for the District include overseeing training, quality assurance, internal investigations, and being a grant writer and project manager. She also stated she is responsible for writing grants and managing projects for CCIA, such as AmeriCorps and Children of Promise. According to Ms. Kuehl, many of the grant writing responsibilities are blurred between the District and CCIA. In addition, due to the heavy correlation between CCIA and District work, she does not allocate her time between the 2 entities on her timesheet, but half of her work during the day is for the District and the remaining half is for CCIA.

- The DOC internal report stated the salary of Bruce Vander Sanden was listed in the District's personnel system. According to the District's Table of Organization, Mr. Vander Sanden's duties included certain programs which were administered by CCIA, including Project Safe Neighborhoods, VISTA, VITA, and Weed and Seed.

The DOC internal report also stated Mr. Vander Sanden reported numerous times to the District Board about various CCIA activities. When we reviewed the minutes of Board meetings, we confirmed Mr. Vander Sanden reported to the Board about programs and activities administered by CCIA.

According to the report, the Judicial District Managers did not identify any compensation paid by CCIA to the District for Mr. Vander Sanden's salary. When we spoke with Mr. Hinzman, he confirmed CCIA does not reimburse the District for a portion of Mr. Vander Sanden's salary or for any of the time he spent working on CCIA programs or activities.

When we spoke with Mr. Vander Sanden, he stated his primary job duties for the District were to oversee probation, parole, and residential staff. He also stated he is responsible for coordinating the Weed and Seed, Project Safe Neighborhood and AmeriCorps/Vista programs which are all programs of CCIA. Mr. Vander Sanden estimated he spent 5% to 10% of his time on CCIA duties.

- The DOC internal report stated, "In addressing the issue of Sixth Judicial Administrative staff involvement in CCIA activity with Director Hinzman, he responded that most of his time and that of Ms. Kuehl and Mr. Vander Sanden for the non-profit was done in the evenings and on week-ends."

However, as previously stated, Mr. Hinzman stated in a July 1, 2009 e-mail to the DOC Director that District employees address CCIA program issues in a timely manner during work hours which requires them to work additional hours. In addition, when we spoke with Ms. Kuehl, she stated she performed her CCIA duties during her normal working hours. When we asked Mr. Vander Sanden when he performed the duties associated with grants administered by CCIA, he did not provide a direct response.

- The DOC internal report stated, "Retired Assistant Director Cindy Engler serves as the contact person and monitors federal offenders placed in a 6th District residential facility by the Bureau of Prisons [BOP]; however, she is paid through CCIA for those duties. According to a listing provided by 6th District to DOC Central Office, Ms. Engler makes \$1,969.50 bi-weekly or \$51,207.00 annually. Both John Hannaford [former District Manager] and Cathy Saddoris [CCIA Finance Director] say that the District reimburses CCIA for the cost of Cindy's salary. Based on the guideline that retirees receiving IPERS benefits cannot be employed by an IPERS covered agency and her work is directed by a contract between 6th District and the BOP, it appears this arrangement between 6th District and CCIA has been designed to circumvent the IPERS re-employment rule. Additionally this was a new expense as the District was continually reporting they could not financially make it through to the end of the year."

We reviewed the contract CCIA established with Ms. Engler which was effective from July 1, 2011 through June 30, 2012. The employment contract between CCIA and Ms. Engler described her job duties as management of the programmatic requirements of the BOP contract. A month prior to establishing the contract with CCIA, Ms. Engler retired from the District on May 31, 2011. According to the District Manager, she performed the same job duties for the District (as well as other responsibilities) as those described in the contract with CCIA. At the time of her retirement from the District, Ms. Engler's annual salary was approximately \$93,825.

The terms of her employment contract with CCIA include \$47,000.00 of annual compensation. While CCIA paid Ms. Engler during fiscal year 2012, the District reimbursed CCIA for the costs associated with her employment contract. The employment contract was not renewed for fiscal year 2013.

Based on CCIA records we reviewed and information obtained from District officials, we determined Ms. Engler received IPERS benefits and participated in the Sick Leave Incentive Program (SLIP) after her retirement on May 31, 2011. We concur with DOC officials' conclusion Ms. Engler simultaneously received these benefits and payments for performing the same duties she performed prior to her retirement. While CCIA compensated Ms. Engler, CCIA was ultimately reimbursed by the District. As a result, it appears the District employed Ms. Engler "through" CCIA in an effort to circumvent IPERS' re-employment rules.

- The DOC internal report stated, "CCIA employs five 6th District employees to conduct pre-trial services on the week-end. Two of these employees are probation/parole officers, two clerical, and one a residential officer during the week. CCIA invoices and the 6th District pays for the cost of the pre-trial service. Director Hinzman commented that this saves the District from having to pay overtime; however, the major concern is a potential violation of FLSA rules as well as IPERS for these individuals. Even though these individuals are technically paid by CCIA, 6th District trains them, directs their work, and pays CCIA back for their cost. Additionally, pre-trial interview information entered into ICON (Iowa Corrections Offender Network) shows that many times the clerical support, paid through CCIA, entered the data during the workweek during State time."

We requested copies of all agreements, contracts and/or grants established between the District and CCIA. None of the materials we were provided included documentation which indicated the District had established arrangements with CCIA to provide pre-trial services during the week or on weekends.

Pre-trial services include meeting with and/or interviewing individuals on probation or parole. These functions are performed exclusively throughout all Judicial Districts by Probation/Parole Officers who are employed by the Districts. These services are not contracted out.

We confirmed the 5 individuals identified by DOC officials were paid by CCIA and those costs were reimbursed to CCIA by the District. We also confirmed with Mr. Hinzman his comments the arrangement saves overtime costs for the District.

In addition, we concur with the DOC officials' finding the arrangement causes concerns regarding the District's compliance with the Fair Labor Standards Act (FLSA) and the District's required contributions to IPERS for the work performed by the employees. The work performed by the 5 individuals is a function of the District rather than CCIA.

- The DOC internal report stated the District's personnel system included 22 positions (11.75 full time equivalent positions) described as AmeriCorps Student Interns. The report also stated, "John Hannaford informed us these were CCIA-supported AmeriCorps interns and have been added to PMIS [District's personnel system] in the last couple of years because of span of control issues, further explained by John as being a "political issue." While none of the Districts liked working through dilemmas caused by span of control issues, we are not aware of any other Districts adding student interns to their FTE's in the PMIS system."

We reviewed the District's payroll records and determined the 22 positions identified by DOC officials were included in the District's listing of employees. However, each of the 22 positions were unpaid and they did not receive any benefits. According to District staff we spoke with, the 22 individuals were volunteers. Because they were volunteers and there were no employment costs associated with the positions, CCIA did not reimburse the District any funds for these positions.

It is not appropriate for the District to include volunteers in personnel records for the purposes of meeting span of control requirements. All individuals who are not directly employed by the District should be removed for the District's personnel and payroll records.

In addition to speaking with Mr. Hinzman, Ms. Kuehl and Mr. Vander Sanden, we also spoke with the former District Manager, John Hannaford, and 5 additional District administrative staff members to determine the employees' job responsibilities for the District and CCIA, if applicable. Because an additional District staff member was on maternity leave, we were unable to discuss her responsibilities with her at the time of our fieldwork.

Based on these discussions, we determined 9 of the 10 administrative employees performed work for CCIA but are District employees. According to each employee other than Mr. Hannaford, they did not maintain timesheets documenting the amount of time spent on CCIA projects. In addition, the time spent on CCIA projects was during their work day at the District. Based on our discussions, they did not incur any "extra" hours for the projects. However, Mr. Hannaford stated his work for CCIA was completed either after hours or during weekends. According to Mr. Hinzman, several District employees work on CCIA projects/programs because CCIA staff cannot handle the workload associated with all the programs CCIA administers.

We reviewed payroll for the former Director, 2 Assistant Directors, the Clinical Services Director, and the Administrative Assistant to determine if these 5 employees were paid with State funds or if CCIA was reimbursing the District for its payroll costs. In addition, we reviewed the former Division Manager's payroll because he was an authorized check signer on CCIA's bank accounts.

During our review of payroll reports, we determined the Director, the Assistant Director, and the Division Manager positions are funded from District funding and the Clinical Services Director and the Administrative Assistant are funded from local funding. As a result, these employees should not have performed any services for CCIA during District hours. Therefore, all work performed by these employees on CCIA programs should not have occurred or should have been reimbursed by CCIA to the District to offset payroll expenses. The remaining employees reported they worked only a very limited time on CCIA duties each month.

As previously stated, the employees we spoke with do not maintain timesheets. As a result, we were unable to determine how much time the employees spent performing responsibilities related to programs administered by CCIA. Because timesheets were not available, we calculated a percentage of time based on the job duties they perform for CCIA and an approximate amount of time these duties would take. We asked the employees to estimate the portion of their time they spent on CCIA duties. Each individual is summarized below, including the calculation of the amount of each employee's salary that should have been funded by CCIA. Because each employee's job duties did not change substantially during fiscal years 2009 through 2012, we applied the percentages to the total salaries earned by the employees during this period. We were unable to determine the accuracy of the estimates provided by the individuals.

- Gary Hinzman – The original by-laws of CCIA stated the Director of the District will also be the Executive Director of CCIA. As previously stated, Mr. Hinzman retired from the District on May 15, 2013. In April 2012, CCIA changed its by-laws to state the Director of the District may serve as the Executive Director of CCIA.

According to Mr. Hinzman, the Director for the District is to oversee the operations of the District and the Executive Director's responsibility with CCIA is limited predominantly to oversight. Mr. Hinzman also stated he spent approximately 25% of his time on CCIA activities.

- John Hannaford – During an interview with the former Division Manager, he stated he was primarily responsible for managing financial and accounting employees and transactions, including purchasing, preparing reports, reconciling, and reviewing. He also stated he is an authorized signer for checks written from CCIA's bank accounts and he reviewed the related bank reconciliation. He estimated his time spent for CCIA was 5 to 10 minutes each day, but this time could vary depending on the activity for CCIA. As a result, we estimated CCIA activities to be 2% of his time.

Table 17 summarizes the salary for the 4 employees for fiscal years 2009 through 2012, the amount of time we calculated these 4 employees spent working on CCIA activities and the amount CCIA should have reimbursed the District for the 4 employees. As stated previously, the other employees who reported they performed some CCIA duties also reported the amount of time spent each month was very limited. As a result, they are not included in the **Table**.

Table 17			
Employee	Salary for FY09 through FY12	Percentage	Calculated CCIA Salary
Gary Hinzman	\$ 629,265.00	25%	\$ 157,316.25
Jean Kuehl	510,636.30	50%	255,318.15
Bruce Vander Sanden	466,100.25	5%	23,305.01
John Hannaford	395,945.19	2%	7,918.90
Calculated total			\$ 443,858.31
Rounded total			\$ 443,900.00

As illustrated by the **Table**, approximately \$443,900.00 was paid by the District for these 4 employees' salaries, even though their time was spent performing functions for CCIA. The estimated amount of \$443,900.00 is included in **Exhibit A**.

Health and Dental Insurance - During our review of CCIA's bank statements, we identified several checks issued to the District. We requested supporting documentation for these payments and determined CCIA reimbursed the District for health and dental insurance for all CCIA employees who received the benefits. Because CCIA employees are not State employees, the District should not include CCIA employees on the State's health and dental insurance plans.

By reviewing District payroll records, we determined CCIA employees were included in the payroll records. According to District staff we spoke with, the CCIA employees were included in the District's payroll records exclusively for the purpose of receiving the same health and dental insurance benefits provided to District employees.

A representative of the District provided a copy of the District's general ledger summarizing all the payments received by CCIA. According to the District's Division Manager, when Mr. Hannaford was employed by the District, he off-set expenses which would not be identified in the District's general ledger. As a result, certain transactions were not recorded by Mr. Hannaford. For instance, if the District owed CCIA for janitorial services for a given period and CCIA owed the District for health and dental insurance, Mr. Hannaford net the 2 amounts and only recorded the difference between the 2 obligations, if any. According to the District representative, documentation of the amounts netted was not maintained.

Because we were unable to obtain supporting documentation from the District, we obtained a listing of payments issued to the District by CCIA for the period July 1, 2008 through July 31, 2012 from CCIA's Fiscal Officer. We also received supporting documentation for certain months to determine if the District was reimbursed for the entire amount, or a portion, of the insurance premiums.

Based on supporting documentation, the insurance premiums paid by CCIA agreed with monthly health and dental premiums established for State employees. We also attempted to determine if CCIA employees paid for a portion or all of the premiums CCIA reimbursed the District for. However, because detailed payroll records were not available from CCIA, we were unable to determine what portion, if any, CCIA employees contributed toward the health and dental insurance premiums paid on their behalf.

The payments issued to the District from CCIA are summarized in **Table 18** by fiscal year. The amounts reimbursed agree with the costs incurred by the District.

Table 18	
Fiscal Year Ended June 30,	Health and Dental Insurance Payments
2009	\$ 63,322.30
2010	101,387.50
2011	113,394.24
2012	118,406.74
Total	<u>\$ 396,510.78</u>

As illustrated by the **Table**, CCIA reimbursed the District \$396,510.78 for health and dental insurance for the period July 1, 2008 through June 30, 2012. We were unable to determine what effect, if any, there was to the State and the calculation of health and dental insurance premiums as a result of CCIA employees being allowed to participate in the State's insurance benefits. As a result, we have not included any improper disbursements in **Exhibit A** for these costs.

Office Space Rent - As previously stated, CCIA's office is located in the District's administrative building. According to Mr. Hinzman, CCIA Board meetings are held in the District's building. We also observed offices used by various CCIA employees, including CCIA's Fiscal Officer, in the District's administrative building. According to Mr. Hinzman, CCIA does not maintain any other offices or rent any other facilities.

Based on our review of financial records, CCIA does not pay the District rent for the offices used by CCIA employees. Based on our review of records available and discussions with District and CCIA staff, we also determined CCIA does not reimburse the District for a portion of the costs of maintaining the building or building services, such as electricity and telephone costs. However, CCIA did reimburse the District for a portion of the custodian costs incurred.

It is not reasonable for the District to pay CCIA's operating costs of this nature. As a result, we contacted a commercial real estate agent in the Cedar Rapids area to determine how much it would cost to rent office space based on CCIA staffing. We reviewed the amount of space needed by CCIA to conduct its business and determined approximately 1,700 square feet would be reasonable. The 1,700 square feet allows for a conference room, file/storage room, an office for the Executive Director and 5 office cubicles for various employees.

With the assistance of the real estate agent, we determined it would be reasonable for CCIA to pay \$14.00 to \$17.00 per square foot per month for a Class B building in Cedar Rapids. This type of building would be an average office building. Therefore, CCIA would expect to spend \$23,800.00 to \$28,900.00 annually to rent office space. Because rental fees vary based on location, square feet, and building, it would be reasonable for CCIA to pay \$23,800.00 to rent office space. However, this estimate does not include miscellaneous occupancy expenses, such as office equipment, supplies, and utilities. Because we are unable to determine a reasonable amount to be allocated to CCIA for the office equipment, supplies, and utilities, we did not include this amount in **Exhibit A**. As stated previously, CCIA currently does not reimburse the District for these costs.

Since CCIA has not paid office rent to the District for the period July 1, 2008 through June 30, 2013, the estimated value of \$119,000.00 for the office space is included in **Exhibit A** as costs paid by the District on behalf of CCIA.

Because CCIA was established in 1991 and started with offices at the District, the value of the office space would be significantly greater if we extended the time period of our review. In addition, because documentation was not available to identify any miscellaneous expenses, such as supplies and cleaning, an amount is not included in **Exhibit A**. If documentation had been readily available, an amount would have been allocated to CCIA since CCIA does not reimburse the District for these expenses.

During our review of e-mail communications involving District officials, we identified messages sent in October 2009 between Mr. Hinzman and a representative of the Legislative Services Agency (LSA). A message from the LSA representative asked Mr. Hinzman if CCIA reimbursed the District for office space occupied by the CCIA Finance Officer. Mr. Hinzman's response stated, "The District allows the office space to be the District's match in grants. Better than cash." It is not appropriate for District officials to use District resources as a match for programs administered by CCIA. We were unable to determine if the use of a non-cash match would be allowable for the specific grant to which Mr. Hinzman referred.

Vehicles - As previously stated, DOC conducted an internal review regarding certain District transactions. During DOC's review, a concern was identified regarding the number of vehicles the District maintains, the reasonableness of the number of vehicles the District maintains and the funding used to purchase certain vehicles. According to the DOC's internal review, the District purchased 2 vehicles which were financed by Ford Credit and GM Credit. In addition, the District paid CCIA for 4 vehicles the District purchased in April 2009.

According to a representative of the District, the District maintained a fleet of 39 vehicles for use by employees for various activities, such as transporting offenders and traveling to training events. In addition, CCIA employees are allowed use the District's vehicles for business purposes at no cost. CCIA relies on the District to provide vehicles because CCIA does not own any vehicles.

We obtained a listing of vehicles owned by the District and reviewed the related mileage logs. We also verified the odometer readings agreed with the mileage logs for a selected number of vehicles. As a result, we determined mileage logs were not maintained for all vehicles and vehicles are assigned to locations, not individuals. In addition, employees using vehicles must sign them out using a sign out log. High Risk Unit (HRU) employees are not required to keep mileage logs for the vehicles used by the unit due to the high frequency of travel. In addition, if a vehicle is not kept at the District's main complex in Cedar Rapids, the employees at the surrounding locations are responsible for tracking and maintaining mileage logs. However, the mileage logs from surrounding locations are not reviewed by an independent individual.

The District took 15 of the 39 vehicles out of service on June 30, 2012. According to Mr. Hannaford, the vehicles were taken out of service as a cost saving measure. The vehicles are still owned by the District, but they are not allowed to be used by District employees. We verified the 15 vehicles were not driven after June 30, 2012 by matching the odometer reading to the June 30, 2012 mileage log. Because the 15 vehicles are not being driven, it appears the District does not need these 15 vehicles to conduct District operations.

According to the motor vehicle purchase agreements, 4 black Dodge Chargers were purchased on April 1, 2009 for \$20,871.00 each for a total cost of \$83,484.00. The motor vehicle purchase agreements identified the purchaser as the District. According to District and CCIA staff members we spoke with, CCIA obtained a loan from its financial institution for the purchase of the District vehicles. However, when District and CCIA staff members were asked why this agreement was established, an explanation was not provided.

The District and CCIA subsequently established an equipment lease for the vehicles in May 2009. According to the equipment lease, the District agreed to pay CCIA a total of \$97,566.00 for the May 1, 2009 through July 15, 2013 term of the lease. **Table 19** summarizes the dates of the payments and the amount of principal and interest payments by the District to CCIA for the equipment lease.

Table 19				
Date	Description per District Documentation	Principal Payment	Interest Payment	Balance
04/06/09	Beginning balance			\$ 83,484.00
05/06/09	DCS payment	\$ 1,626.10	-	81,857.90
06/11/09	DCS payment	1,089.52	536.58	80,768.38
09/04/09	Jul 09 – Jun 10 pay	18,738.48	774.72	62,029.90
10/18/10	Jul 10 – Dec 10 pay	4,647.93	5,108.67	57,381.97
04/18/11	Jan 11 – June 11 pay	7,891.40	1,865.20	49,490.57
12/30/11	July 11 – Dec 11 pay	7,480.67	2,275.33	42,009.90
03/28/13	Jan 12 – Mar 28, 13	42,009.90	3,425.21	-
Total		\$ 83,484.00	13,985.71	

The equipment lease specified 2 payments were due prior to June 30, 2009, payments of approximately \$20,000.00 were due each year from 2009 through 2012 “on or about July 15” and the final payment of approximately \$16,000.00 was due “on or about July 15, 2013.” As illustrated by the **Table**, the District did not make all payments to CCIA in a timely manner. In addition, the payments were not made in the amounts specified in the equipment lease.

The **Table** and invoices from CCIA to the District specify \$13,985.71 of interest charges were incurred by the District related to the equipment lease with CCIA. While the lease agreement did not specify an interest rate or mention CCIA charging the District interest, the lease stated the District agreed to pay CCIA a total of \$97,566.00 during the period of the lease for the vehicles which cost \$83,484.00. The District paid a total of \$97,469.71 to CCIA.

We obtained a copy of an invoice from CCIA to the District for the payment the District issued on March 28, 2013. Based on the invoice, CCIA charged the District an interest rate of 6.555% from December 31, 2011 through March 28, 2013. According to the Federal Reserve System, interest rates in May 2009 were 6.72% at a commercial bank for an auto loan and 3.47% at an auto finance company.

In addition to the CCIA equipment lease agreement, DOC's internal review determined the District entered into loan agreements with Ford Credit and GM Credit for 2 vehicles in 2011. According to DOC representatives, there are no provisions in the *Code of Iowa* which allow or disallow the District to enter into loans to purchase vehicles. Also, according to a DOC representative, there are no written guidelines provided to the Districts regarding financing of vehicles. As a result, we have not included any costs in **Exhibit A** regarding the District's practice of financing vehicles through Ford Credit and GM Credit.

Table 20 summarizes the vehicles purchased by the District through financing and the purchase amounts. According to a District representative, the Ford F250 and Chevrolet Malibu were paid off in May 2013.

Table 20	
Vehicle Description	Purchase Amount
2011 Ford F250	\$ 26,734.00
2011 Chevrolet Malibu	19,229.43
Total	<u>\$ 45,963.43</u>

We also reviewed the District's auto insurance to determine if only District employees were covered by the District's auto insurance. As a result, we determined the District has 15 employees from AmeriCorps and CCIA listed as covered drivers. However, according to a District representative and a CCIA representative, CCIA does not reimburse the District for any auto insurance expenses. In addition, CCIA does not reimburse or cover the fuel or maintenance expenses for using the District's vehicles. According to the CCIA representative, the District and CCIA have always operated under this verbal agreement.

Table 21 summarizes the annual auto insurance premiums the District paid for fiscal years 2009 through 2012 and payments made through August 20, 2012 in fiscal year 2013.

Table 21			
Date		Amount	
10/03/08		\$ 799.00	
11/26/08		7,506.12	
02/23/09		5,798.49	
04/17/09		1,208.00	
Fiscal year 2009 subtotal		15,311.61	
09/04/09		1,733.00	
11/16/09		21,618.00	
Fiscal year 2010 subtotal		23,351.00	
07/09/10		23,253.00	
10/15/10		2,403.00	
Fiscal year 2011 subtotal		25,656.00	
08/05/11		19,557.00	
12/30/11		665.00	
04/06/12		647.00	
04/27/12		(199.00)	
Fiscal year 2012 subtotal		20,670.00	
08/03/12		10,397.00	
08/20/12		1,437.00	
Fiscal year 2013 subtotal*		11,834.00	
Total		\$ 96,822.61	
* - Through August 20, 2012			

* - Through August 20, 2012

According to the District's insurance agent, the District's premium is not determined by the number of drivers. Rather, it is calculated based on the number of vehicles the District owns. As a result, we have not identified any questionable costs. However, it appears the District maintains more vehicles than would otherwise be necessary because CCIA uses some of the vehicles. Poor financial decisions made by District officials, such as owning vehicles and paying insurance on vehicles used by CCIA, contribute to the District's poor financial position. Because CCIA is a legally separate entity, CCIA should own and maintain its own fleet of vehicles and be responsible for paying the expenses associated with ownership of the vehicles.

Cell Phones - During our review of the District's bank statements, we identified payments issued to US Cellular and Verizon. As a result, we reviewed the monthly bills for US Cellular and Verizon for the period July 1, 2008 through June 30, 2012 to determine if any non-District employees were provided cell phones by the District and the entity responsible for paying for the cell phones.

Based on the District's monthly bills, we determined CCIA was assigned 4 to 8 cell phones for the period January 1, 2009 through June 30, 2012. We requested supporting documentation from CCIA and the District to determine if CCIA reimbursed the District the entire expense for the plans its employees use or a portion of the expense. The supporting documentation available shows reimbursements to the District by CCIA were made on a sporadic basis. The amounts were not consistent and the reimbursements were not supported by adequate documentation. As a result, we were unable to determine if CCIA reimbursed the District for all costs associated with the cell phones used by CCIA from January 1, 2009 through June 30, 2012.

Table 22 summarizes information from the available invoices and the amounts the District received from CCIA for the reimbursement of cell phone expenses.

Table 22		
Fiscal Year	Number of Phone Lines	Reimbursement Amount
2009	5	\$ 3,900.46
2010	4	7,794.91
2011	5	3,637.04
2012	8	2,852.93
Total		<u>\$ 18,185.34</u>

As part of our review, we determined the District incurred additional charges when District employees and CCIA employees exceeded usage plans for data, texting, voice services and for downloading and/or subscribing for games or applications. The additional charges identified on the invoices available for our review are summarized in **Table 23**. The invoices available include the period July 1, 2008 through June 30, 2012.

Table 23	
Description	Amount
Texting	\$ 4,319.40
Plans w/ zero usage	6,408.03
Data Plans	683.07
Apps/Games	489.31
Phones/Accounts	908.48
Late Payment Fees	15.00
Voice Overages	1,128.59
Total	<u>\$ 13,951.88</u>

As illustrated by the **Table**, a total of \$13,951.88 in additional charges were incurred. Based on supporting documentation available from the District, CCIA was billed \$441.85 for additional charges, such as usage and text messages, for the period January 1, 2009 through June 30, 2012. However, due to the lack of supporting documentation, we were unable to determine if the remaining \$13,510.03 of additional charges were incurred by District or CCIA employees. As a result, additional cell phone charges are not included in **Exhibit A**.

Out-of-State Travel - During our review of the Board of Director's meeting minutes, we identified several discussions of upcoming out-of-state travel to attend conferences and/or training events for various District employees. Due to the volume of out-of-state travel claims, we reviewed all out-of-state travel claims for District employees for fiscal year 2012. In addition, we reviewed the funding source used to pay for the District employees to attend the out-of-state conferences or training events.

We reviewed 14 travel claims for District employees for the period July 1, 2011 through June 30, 2012. Of the 14 travel claims, 3 claims did not have any costs associated with the event because the District employee was an invitee of the forum or college. For the remaining 11 claims, 5 claims were paid by the District and 6 claims were paid by CCIA. According to Mr. Hinzman, CCIA pays for innovative training or conferences for District employees.

Table 24 summarizes the 5 claims paid by the District, including dates, number of employees attending, reason for travel, location of travel and amount.

Table 24

Travel Dates	# of Employees	Reason for Travel	Location	Amount
07/08/11 – 07/15/11	1	PCSOT* Certification Course	Philadelphia, PA	\$ 629.06
07/16/11 – 07/22/11	1	SAMHSA^ Drug Court Meeting	Washington, D.C	424.24
07/30/11	1	Return visitors from Poland to Chicago, IL	Chicago, IL	213.27
08/22/11 – 08/25/11	4	Federal BOP~ Contractor's Training	Minneapolis, MN	1,715.45
05/29/12 – 06/02/12	3	SAMHSA^ Grantee/Drug Court Meeting	Nashville, TN	3,201.54
Total				<u>\$ 6,183.56</u>

* - Post Convicted Sex Offender Testing

^ - Substance Abuse and Mental Health Services Administration

~ - Bureau of Prisons

We reviewed the District's programs and grants to determine if the travel was necessary to continue providing services to the community. As a result, we determined the travel was required as part of a District program or to maintain the funding for the contract for 4 of the 5 claims paid by the District. The travel on July 30, 2011 was discussed further with a District representative to determine the reasonableness of the expense. According to a District representative, the expense to return Poland visitors to Chicago, IL should have been paid by CCIA and not the District. As a result, we identified \$213.27 of improper disbursements which are included in **Exhibit A**.

Table 25 summarizes the 6 claims paid by CCIA, including dates, number of employees attending, reason for travel, location of travel and amount.

Table 25

Travel Dates	# of Employees	Reason for Travel	Location	Amount
07/18/11 – 07/20/11	1	Working with Native Americans	Omaha, NE	\$ 281.05
07/22/11 – 07/27/11	13	APPA* Training and Leadership	Chicago, IL	8,799.80
09/05/11 – 09/10/11	1	Motivational Interviewing Network of Trainers	Sheffield, England	3,260.85
10/24/11 – 10/28/11	1	Summit on Victim Offender	Niagara Falls, NY	798.05
02/24/12 – 02/29/12	5	APPA* Winter Training and Leadership	San Diego, CA	7,498.44
03/08/12 – 03/09/12	1	Mental Health in Corrections	St. Louis, MO	302.90
Total				\$ 20,941.09

* - American Probation and Parole Association

As illustrated by the **Table**, the costs paid by CCIA ranged from \$281.05 to \$8,799.80. Based on documents we reviewed, CCIA did not incur any airfare or other transportation costs for the trips to Niagara Falls or St. Louis. We also did not identify any indication the District paid these costs. As a result, we are unable to determine how staff traveled to these locations or who incurred the related costs.

According to Mr. Hinzman, CCIA provides funding for key District employees to maintain their leadership skills and keep informed of current practices, knowledge, and trends used to guide operations of the District. In addition, by using CCIA to fund this training, the general training funds of the District can be used for other training opportunities for District employees.

We also reviewed the minutes to determine if the out-of-state travel was approved by the District's Board of Directors prior to the travel. Of the 14 travel claims, we identified 1 was approved by the Board after the travel had occurred and 1 was never approved by the Board. The remaining 12 claims were approved by the Board prior to the travel dates.

ADDITIONAL INFORMATION

CCIA Tax Documents - We obtained CCIA's 990 tax returns for calendar years 2009, 2010, and 2011 to determine funding sources, assets owned, and any related organizations.

During our review of CCIA's 990 tax returns, we determined there were some inconsistencies between years on how questions were answered and what forms were completed. As a result, we contacted the Certified Public Accounting firm which was listed as the preparer, TD&T Financial Group (TD&T), to discuss the inconsistencies. The inconsistencies we discussed with a TD&T representative and their responses are summarized in the following paragraphs.

- Schedule R, Related Organizations and Unrelated Partnerships, was included in the 2011 tax return and reported the District as an organization related to CCIA. However, Schedule R was not included in CCIA's 2009 and 2010 tax returns. The District has been a related organization to CCIA since the inception of CCIA in 1991 and should have been included on Schedule R each year. According to a TD&T representative, TD&T have been "slowly starting to increase their accuracy of the 990 tax forms" and began listing supporting organizations.
- Schedule R, Part V, Transactions with Related Organizations, provides a list of certain types of transactions for the preparer's consideration. This Schedule was completed as part of CCIA's 2011 tax return. However, TD&T only identified 2 types of transactions which CCIA and the District engage in. The 2 types identified by TD&T

were performance of services or member or fundraising solicitations for related organization and sharing of paid employees with related organization.

Based on financial transactions we identified between CCIA and the District, TD&T should have identified an additional 3 types of transactions between these 2 entities as follows:

- TD&T should have included loans or loan guarantees to or for a related organization because CCIA and the District established a loan agreement for the purchase of the HRU vehicles.
- TD&T should have included sharing of facilities, equipment, mailing lists or other assets with a related organization because CCIA office space is in the District's administrative building and CCIA does not reimburse the District for the cost of the space. According to the TD&T representative, they only look at CCIA's financial transactions when preparing the tax return. Because there was no exchange of funds, the sharing of facilities would not have been identified. However, the Schedule does not ask the tax preparer to list the type of transactions which have a financial aspect with the related organization, but rather any type of transactions engaged in with the related organization.
- TD&T also should have included reimbursements paid to a related organization for expenses. CCIA issued reimbursement checks to the District every month for the period of July 1, 2008 through July 31, 2012 for health and dental insurance. Because these are expenses incurred by CCIA, TD&T should have identified this type of transaction based on the representative's response that only financial transactions are considered.

Because TD&T has also performed CCIA's annual audit, it is unclear why they were not aware of the relationships between CCIA and the District.

Because, according to the TD&T representative, financial transactions were the only types of transactions identified for tax reporting purposes, we asked what type of information was reviewed by TD&T when preparing the 990 tax returns and related schedules, such as the general ledger or audit reports. According to the TD&T representative, they use the audit report when preparing the tax returns. We compared the audit reports to the 990 tax returns and identified transactions in the audit reports which illustrated the financial transactions between CCIA and the District, such as advances to the District and payments from the District. However, these transactions were not included in the tax returns.

Based on our review and discussions with a TD&T representative, the 990 tax returns submitted to the Internal Revenue Service (IRS) by CCIA were inaccurate and not in compliance with IRS regulations. In addition, the minutes of CCIA Board meetings available for our review did not include a notation the Board or designated representatives reviewed and verified the accuracy of the tax returns prior to submittal. As a result, the inconsistencies were not identified by the CCIA Board or Executive Director.

State Public Policy Group (SPPG) Report – We reviewed the results of an examination performed by SPPG which was completed in November 2012, which was concurrent with the period of our review. According to Mr. Hinzman, CCIA paid for the review. However, we were unable to determine the cost. CCIA officials did not provide an explanation of why the study was commissioned.

The report includes a disclosure which states, "In March of 1992 the Board of Directors of the Sixth Judicial District Department of Correctional Services entered into a written agreement where, among other provisions, 6JD [the District] agreed 'to provide staff support to manage the Community Corrections Improvement Association'."

We were not provided a copy of the agreement referred to. However, based on our observations, it is apparent the District continued to provide staff support to manage CCIA operations through fiscal year 2013. It should be obvious to District officials and the District's Board it is not appropriate to use District funds to support the operations of any entity other than the District without a contract requiring documented benefits of equal value in return. Doing so is to the financial detriment of the District.

The report did not address any specific financial information. However, it includes a number of recommendations. Specifically, the report states, in part:

- The CCIA Board should provide close and detailed oversight of the accounting of CCIA resources, particularly related to the transfer of funds to the District and funds received from the District.
- The role of Executive Director of CCIA should be separated from that of Director of the District.
- Create a separate space for CCIA records, property, and staff. Location in a different building than the District's administrative offices would be ideal.
- While CCIA may want to work out its contractual relationship with the District to cover the space and basic furniture (desk, chairs, file cabinets, etc.), CCIA should invest in its own computer system.
- CCIA's e-mail is currently part of the Iowa Department of Corrections system. This inherently confuses anyone communicating with CCIA and leads them to believe CCIA and the District are one and the same. CCIA should have its own Internet access and e-mail system.
- A tracking system needs to be established, likely with the accounting system which also needs to be established, where grant funds, transfers, and other financial transactions are easily tracked.
- Time spent by all employees on CCIA business should be tracked.

We determined the individual who performed the review previously performed work for or with the District and CCIA. Because of the prior relationship, SPPG does not appear to be an independent reviewer.

Fundraising – As previously stated, CCIA's articles of incorporation state CCIA's purpose is to "maintain, develop, increase and extend the facilities and services of community based correctional service agencies (CBC) of the State of Iowa." This indicates CCIA intended to support the Districts' operations (emphasis added). The articles of incorporation also state CCIA's purpose is "to perform the functions of or carry out the purposes of and assist in providing services" of community based correctional service agencies in the State of Iowa. This indicates CCIA intended to also operate in a similar capacity as the Districts (emphasis added).

As a result, it would be reasonable for CCIA to carry out fundraising activities in an attempt to help financially support the District's operations and programs. According to CCIA's fiscal officer, CCIA carries out fundraising activities to support programs such as Children of Promise and Foster Grandparents. The programs supported by fundraising are administered by CCIA. We were unable to determine what amount, if any, of the funds collected as a result of the fundraising activities were provided to the District in financial support of District programs.

Comparable District Data - During our review, we determined the First, Fifth, and Sixth Judicial Districts are comparable in size, which allowed us to review their programs and various other data for comparative purposes. As a result, we summarized fiscal years 2010, 2011, and 2012 data for the First, Fifth, and Sixth Judicial Districts, which was obtained from the Districts' annual reports and discussions with District officials, in **Table 26**.

As illustrated by the **Table**, the state appropriations received by the First and Sixth Judicial Districts are comparable in size. The **Table** also illustrates both the First and Fifth Judicial Districts provide services to a greater number of counties than does the Sixth Judicial District. However, the First and Sixth Judicial Districts each served between 4,200 to 4,799 offenders during fiscal years 2010 through 2012. While the First and Sixth Judicial Districts serve a comparable number of offenders, the Sixth Judicial District had a fleet of 35 to 37 vehicles while the First Judicial District had only 12. The Sixth Judicial District also had more vehicles than the Fifth Judicial District which reported 32 to 35 vehicles during fiscal years 2010 through 2012. However, the Fifth Judicial District serves 16 counties as opposed to 6 by the Sixth Judicial District and approximately 8,200 offenders as compared to the 4,250 served by the Sixth Judicial District.

Table 26

Category	1st Judicial District	5th Judicial District	6th Judicial District
<u>2010:</u>			
Counties Served	11	16	6
FTEs	175.41	258	202.88
Number of Offenders	4,753	8,199	4,200
Number of Residential Facilities	3	2	3
Number of Beds	278	288	228
Number of Vehicles	12	32	37
State Appropriation	\$ 12,066,497	\$ 18,023,311	\$ 13,613,012
Expenditures	\$ 15,648,632	\$ 21,820,841	\$ 17,508,763
Number of Programs	14	21	18
<u>2011:</u>			
Counties Served	11	16	6
FTEs	176.91	247	194.88
Number of Offenders	4,799	8,305	4,200
Number of Residential Facilities	3	2	3
Number of Beds	278	288	228
Number of Vehicles	12	35	37
State Appropriation	\$ 11,920,098	\$ 18,407,129	\$ 12,709,753
Expenditures	\$ 15,881,995	\$ 23,295,300	\$ 17,800,213
Number of Programs	11	21	18
<u>2012:</u>			
Counties Served	11	16	6
FTEs	176.41	257	185.44
Number of Offenders	4,776	8,305	4,300
Number of Residential Facilities	3	2	3
Number of Beds	278	288	237
Number of Vehicles	12	35	35
State Appropriation	\$ 12,658,088	\$ 18,897,467	\$ 13,712,506
Expenditures	\$ 16,710,882	\$ 24,398,906	\$ 18,157,683
Number of Programs	11	21	17

Using the information presented in **Table 26**, we calculated the average expenditures based on the number of offenders reported. The calculated averages are summarized in **Table 27**.

Table 27			
Fiscal Year	1st Judicial District	5th Judicial District	6th Judicial District
2010	\$ 3,292.36	2,661.40	4,168.75
2011	3,309.44	2,804.97	4,238.14
2012	3,498.93	2,937.86	4,222.71

As illustrated by **Table 27**, the average total expenditures per offender served are much greater for the Sixth Judicial District than those incurred by the First and Fifth Judicial Districts.

Recommended Control Procedures

As part of our review, we reviewed the procedures used by the District to allocate payroll, process claim, administer grants, and prepare reports. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the Sixth Judicial District's internal controls.

- A. Oversight – The Board has a fiduciary responsibility to exercise authority over its funds, efficiently and effectively achieve its mission, provide oversight of the District's operations and maintain the public trust. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity. In addition, the Board is responsible for taking appropriate action when employees do not comply with procedures established by the Department of Corrections.

Based on our observations and procedures performed, we determined the Board failed to exercise proper fiduciary oversight.

District officials, specifically the District Director and Division Manager, also have a fiduciary responsibility to report timely and accurate financial and operating information to the Board, exercise authority over District funds, efficiently and effectively achieve its mission and maintain the public trust. We identified a number of poor decisions made by District officials which negatively impacted the District's financial condition, some of which were presented to the Board for approval. Other decisions do not appear to have been presented to the Board. For example, we determined:

- Budget and other financial information provided to the Board by District officials was frequently incomplete and/or inaccurate. Similar information presented to the Board at subsequent meetings was often significantly different. It did not appear the information presented to the Board consistently included accurate forecasts of financial activity for the short term future. Minutes from Board meetings do not document Board members asked questions regarding budgeting practices when budgeted amounts were consistently not met.
- District officials and the Board approved significant revenue increases without corresponding new funding sources or expanded District facilities. In addition, District officials and the Board did not identify any measures to significantly reduce spending when budget deficits were identified.
- The District's budgets were not prepared in a consistent manner, which made it difficult to compare budgeted information to actual.
- The internal report stated the Board approved, on June 24, 2011, non-contract pay raises of 2% on July 1, 2011 and 1% on January 1, 2012 despite being informed of a projected deficit and knowing the pay increases were not funded by DOC. As a result, the District absorbed the increased payroll costs.
- Because vacation and sick leave were accrued at higher rates for management employees than allowed by State law, the District's financial position was negatively impacted.

- The District paid the full salary for 4 management employees even though each employee spent a portion of their day working on CCIA responsibilities. Had the District sought reimbursement from CCIA for these employees, the District's financial condition would have improved.
- District officials did not require reimbursement from CCIA for fuel expenses, insurance coverage or maintenance of District vehicles used by CCIA employees or volunteers.

The lack of appropriate fiduciary oversight and the failure to ensure implementation of adequate internal controls permitted an employee to exercise too much power over the operations of the District and its related organization, CCIA. The lack of appropriate fiduciary oversight which allowed implementing salary increases and increased leave accruals, against State law, for paid time off caused the District to go further into a deficit position.

In addition, the operations of the District are not consistently distinct from those of CCIA. Because of decisions implemented by the former District Director, including the sharing of staff and how certain costs are paid, what should be distinct lines between the District's operations and CCIA's operations are blurred.

Recommendation – Adequate fiduciary oversight is essential and should be an ongoing effort by all members of the Board. In the future, the Board should exercise due care and require and review pertinent information and documentation prior to making decisions affecting the financial health of the District and other District operations.

Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance with established and improved policies and procedures. District officials should implement changes which ensure a clear separation from CCIA's operations, including assignment of staff and ensuring each entity is responsible for its own operating costs. In addition, procedures should be implemented to ensure all District costs are paid for with District funds and the District does not pay for costs incurred by or on behalf of CCIA.

B. Job Duties - After reviewing job descriptions for several key employees within the District and CCIA, we identified the following concerns:

- Several District employees are administering programs for CCIA and/or assisting with day-to-day operations, such as signing checks, making deposits, reviewing bank reconciliations and writing grants.
- These employees do not maintain timesheets which document how their time is allocated between the District and CCIA. According to 2 employees, because their time on CCIA activities is minimal, they complete their CCIA duties during work but do not record the time. However, according to another employee, she spends at least 50% of her time on CCIA duties. The District is not reimbursed by CCIA for the time spent by the employees.
- CCIA established an employment contract with Cindy Engler, who retired from the District on May 31, 2012. The contract was effective from July 1, 2011 through June 30, 2012 and described the job duties as management of the programmatic requirements of the Bureau of Prisons contract. According to the District Manager, Ms. Engler performed the same job duties for the District as those described in the contract with CCIA.

In accordance with the terms of the contract, CCIA compensated Ms. Engler. Because the District reimbursed CCIA for the costs associated with her employment contract after she retired from the District and was receiving IPERS benefits, it appears the District employed her “through” CCIA in an effort to circumvent IPERS’ reemployment rule.

Recommendation - The District should implement procedures to ensure timesheets are completed, reviewed, and maintained.

In addition, the District and CCIA should implement policies and procedures to ensure independence is established by separating the 2 agencies in staffing, financial transactions and records. The District should discontinue allowing District employees to administer CCIA grants/programs and functions.

Because Ms. Engler’s employment contract with CCIA, which was effectively paid for with District funds, may not comply with IPERS reemployment regulations, we have filed a copy of this report with IPERS for its review.

- C. Vacation and Sick Leave Accruals – Individuals employed by the State’s 8 Judicial Districts are State employees. The Districts operate primarily on appropriations from the State of Iowa and funding is provided by the State for payroll costs. While most State employees’ payroll is processed by DAS, each District processes payroll for its employees. Processing payroll includes determining net pay, accruing vacation and sick leave benefits and ensuring employees contribute the appropriate amount for their health, dental, and other benefits.

We determined the District has established policies which allow management employees to earn vacation and sick leave at a rate greater than non-management employees, other State employees and employees of other Judicial Districts. DAS and DOC officials we spoke with were not aware the District had increased the accrual rates.

We determined 10 employees used more vacation than they would have accrued if the appropriate rates had been applied. Because the employees used more vacation than should have been accrued, the District paid \$40,336.06 more in employee salaries for their paid time off than appropriate. In addition, the value of 20 management employees’ vacation recorded by the District at April 30, 2013 totaled \$272,187.03 more than their vacation would be valued at if appropriate vacation accrual rates had been used. The difference has not been paid by the District, but is an on-going liability. When the employees leave the District’s employment, the District will be obligated to pay for their unused vacation balances.

We also determined the District calculated account values for employees who enrolled in the Sick Leave Incentive Program (SLIP) which were \$66,520.74 greater than appropriate.

Recommendation – District officials should ensure paid time off for employees is accrued at the appropriate rate for all employees. Specifically, all District employees should accrue vacation and sick leave at the rate authorized for all other State employees. In addition, District officials should consult with the appropriate parties to determine how to properly adjust the current leave balances of management employees which have not been properly calculated.

In addition, District and DOC officials should consult with legal counsel and DAS representatives to determine the necessary adjustments for current employees and individuals participating in SLIP.

- D. Compensatory Time – The American Federation of State, County and Municipal Employees (AFSCME) contract specifies if community based corrections employees are unable to utilize earned compensatory time by June 30, the employees will be paid for all unused compensatory time. During our review of benefits received by employees, we determined the District established an agreement with the local union to allow eligible employees to carry compensatory time into July and August of the following fiscal year. This practice and agreement is not in compliance with the AFSCME contract.

The District did not properly record the liability for compensatory time balances carried forward into the following fiscal year for fiscal years 2010 through 2012.

Recommendation – According to District officials we spoke with, the District has discontinued allowing employees to carry compensatory time balances into the following fiscal year. District officials should implement procedures to ensure the policy is not reinstated. In addition, all liabilities at fiscal year-end should be properly recorded.

- E. Health and Dental Insurance Benefits – CCIA reimbursed the District for health and dental insurance for all CCIA employees who were eligible for the benefits. By reviewing District payroll records, we determined CCIA employees were included in the payroll records. According to District staff we spoke with, the CCIA employees were included in the District's payroll records exclusively for the purpose of receiving the same health and dental insurance benefits provided to District employees. Because CCIA employees are not State employees, the District should not include CCIA employees on the State's health and dental insurance plans.

Recommendation – According to District officials we spoke with, the District discontinued including CCIA employees in the District's payroll records in July 2013, which also discontinued allowing CCIA employees to receive the same health and dental benefits District employees receive. We observed an e-mail communication between representatives of DOC and DAS which confirmed the employees have been removed from the District's payroll records and insurance coverage administered by DAS. The e-mail also stated DOC officials would continue to monitor the payroll records to ensure the CCIA employees were not added back at a future date.

- F. FEMA Grant – The District did not follow DOC's instructions on how to bill Linn County for housing prisoners during the 2008 flooding which occurred in the Cedar Rapids area. Other facilities providing similar services billed Linn County based on actual costs rather than a per diem rate in accordance with DOC's instructions. Instead, the District charged the County based on a per diem rate. District officials were unable to provide support for the amounts billed to the County.

In addition, the District retained \$573,609.25 of the payments from the County rather than remitting them to DOC in accordance with DOC's instructions. Of this amount, the District spent \$328,981.88 to repair damages to the residential facilities, which left \$244,627.37. District officials were unable to support the amount retained.

Recommendation – District officials should work with DOC officials to determine what amount should be reverted to DOC. District officials should also ensure policies and procedures are implemented which ensure DOC instructions are complied with. In addition, District officials should ensure appropriate documentation is maintained which support financial information, such as the per diem rates charged, the amounts remitted to DOC and the amounts retained by the District.

In addition, DOC officials should perform periodic reviews which provide assurance DOC instructions are being complied with. If instances of non-compliance are identified, corrective action should take place in a timely manner.

- G. District Grants – Supporting documentation was not maintained for all expenses for District grants. In addition, sales tax was paid on a purchase.

Recommendation – The District should implement policies and procedures to ensure all supporting records are properly retained for grants administered by the District. Policies and procedures should also be implemented to ensure sales tax is not paid for purchases made by the District.

- H. CCIA Grants – Supporting documentation was not always maintained for expenses for CCIA grants. In addition, grants include in-kind matches from the District for use of space and/or District staff.

In addition, several District employees work on CCIA programs. According to Mr. Hinzman, this occurs because CCIA staff cannot handle the workload associated with all the programs CCIA administers.

Recommendation – If the District continues to work with CCIA in administering grants which benefit the District, District officials should ensure CCIA staff retain appropriate documentation for the grants. In addition, the District and CCIA should discontinue the use of in-kind matches of District staff because the agencies are separate from each other.

If District staff are available and capable of administering a program or grant, the program or grant should be administered by the District rather than CCIA.

- I. Office Space Rent – We determined CCIA does not pay the District rent for the offices used by CCIA employees. Based on our review of records available and discussions with District and CCIA staff, we also determined CCIA does not reimburse the District for a portion of the costs of maintaining the building or building services, such as electricity and telephone costs. However, CCIA did reimburse the District for a portion of the custodian costs incurred.

Recommendation – District officials should ensure policies and procedures are implemented which ensure CCIA reimburses the District for operating costs, including, but not limited to, rent for office space, a portion of utility cost, and maintenance costs. In addition, District officials should ensure CCIA operations are physically separated from District operations in a manner which allows operating costs, to be easily identifiable or allocated.

- J. Capital Assets-Vehicles – The District maintains a fleet of vehicles. The number of vehicles maintained by the District is higher than those maintained by other Judicial Districts. We determined the vehicles maintained by the District are used by CCIA employees. CCIA does not reimburse the District for any vehicle costs, such as fuel, repairs, insurance, and replacement.

Mileage logs are not required to be maintained and are not consistently submitted for all District vehicles.

Recommendation – District officials should ensure CCIA staff are no longer allowed to use District vehicles.

In addition, the District should develop a policy and implement procedures which require mileage logs be maintained and submitted for all District vehicles. An independent person should review the mileage logs for reasonableness. On a periodic

basis, an independent person should ensure the amount of mileage recorded on the logs agrees with the car's odometer.

The District should reduce the number of vehicles maintained to only those which are necessary.

K. Travel Claims – During our review of travel claims, we identified the following:

- Certain District employees periodically travel out-of-state, although certain travel is funded by CCIA. According to the former District Director, CCIA pays for innovative training or conferences for District employees.
- On 1 occasion, the expenses should have been paid from CCIA funds rather than District funds.
- Travel was not approved by the Board on 1 occasion and travel was approved after the travel occurred on another occasion.

Recommendation – The District should implement procedures to ensure the District Board approves of all innovative training or conferences attended by District employees prior to the event and pre-approves all out of state travel.

L. Cell Phones – During our review of cell phone bills paid by the District, we identified additional charges when plans were exceeded for texting, voice services, and use of the data plan. We also identified charges for applications and games, phone and accessory charges and late payment fees. In addition, we determined the District paid for several phone plans each month which were not used.

We also determined the costs for cell phones paid by the District include cell phones used by CCIA staff. We were unable to determine if reimbursements to the District by CCIA for the cell phones were sufficient to cover all charges incurred by CCIA.

Recommendation – The District should review monthly cell phone statements to ensure all charges are proper. In addition, the District should implement a policy for cell phone usage. The District should also evaluate each plan to determine its necessity.

In addition, District officials should discontinue the practice of paying for cell phones used by CCIA and then seeking reimbursement.

M. CCIA Tax Documents – During our review of CCIA, we identified inconsistencies in CCIA's 990 tax returns for calendar years 2009, 2010, and 2011. The following inconsistencies were noted:

- Schedule R, Related Organizations and Unrelated Partnerships, was included in the 2011 tax return documenting the District as a related organization but was not included in the 2009 and 2010 tax returns. Since the inception of CCIA in 1991, the District has always been a related organization and should have been included on this schedule each year.
- Schedule R, Part V, Transactions with Related Organizations, was completed as part of the 2011 990 tax return. However, TD&T only identified 2 types of transactions which CCIA and the District engage in. The 2 types identified by TD&T were performance of services or member or fundraising solicitations for related organization and sharing of paid employees with related organization. Based on the relationship between

CCIA and the District, TD&T should have identified an additional 3 types of transactions between these 2 entities.

- Because financial transactions were the only types of transactions identified by TD&T for tax reporting purposes, discussion was held regarding what information was reviewed by TD&T when preparing the 990 tax returns and related schedules, such as the general ledger or audit reports. According to the TD&T representative, they always use the audit report when preparing the tax returns. We compared the audit reports to the 990 tax returns and identified transactions in the audit reports which illustrated the financial transactions between CCIA and the District, such as advances to the District and payments from the District.

Because the CCIA Executive Director was also the District Director, these inconsistencies and inaccuracies should have been identified and corrected in a timely manner.

Recommendation – District officials should consult with CCIA to ensure the relationship between the 2 entities is accurately disclosed in CCIA's annual tax return.

Exhibits

Report on a Review of the
Sixth Judicial District
Department of Correctional Services

Summary of Findings
For the period July 1, 2008 through June 30, 2012

Description	Exhibit/ Table/Page	Amount
Improper disbursements:		
Vacation accrual:		
Value of vacation used before earned	Table 8	\$ 40,336.06
Improper payouts	Exhibit C	<u>170,178.78</u> \$ 210,514.84
Incorrect sick leave accrued balance	Page 21	<u>2,088.61</u>
Subtotal		<u>212,603.45</u>
CCIA costs paid by the District:		
Payroll (calculated)	Table 17	443,900.00
Office space rent (estimated)	Page 35	119,000.00
Out-of-state travel	Page 39	<u>213.27</u>
Subtotal of CCIA costs paid by the District		<u>563,113.27</u>
Total improper disbursements		<u><u>\$ 775,716.72</u></u>
Potential improper liabilities:		
Sick leave accrual for SLIP participants:		
Incorrect conversion rates	Table 11	\$ 93,662.04
Incorrect accrued balances	Page 21	<u>64,432.13</u>
Total potential improper liabilities		<u><u>\$ 158,094.17</u></u>

Report on a Review of the
Sixth Judicial District
Department of Correctional Services

Excess Vacation Hours Accrued for Management Employees as of April 30, 2013
For the period July 1, 2008 through June 30, 2012

Employee Name	District		
	Number of Hours	Rate	Amount
Mark Achey	563.10	\$ 39.35	22,157.99
Jerry Allen	121.72	37.40	4,552.33
Bob Anderson	594.85	39.35	23,407.35
Sam Black	576.23	41.20	23,740.68
Angela Brubaker	36.47	21.06	768.06
Randy Cole	649.65	39.35	25,563.73
Cynthia Dennis	574.72	39.35	22,615.23
Greg Fitzpatrick	643.71	39.35	25,329.99
Wendy Fowler	391.66	24.49	9,591.75
Cathy Franzenburg	405.69	39.35	15,963.90
Dave Garner	350.96	39.35	13,810.28
Melinda Lamb	203.28	47.40	9,635.47
Brenda Larkey	209.97	29.69	6,234.01
Sharee Lind	615.21	29.69	18,265.58
Kim McIrvin	253.14	39.35	9,961.06
Robert Metzger	95.68	43.21	4,134.33
Shari Miller	213.12	33.18	7,071.32
Bobbie Peters	55.91	43.26	2,418.67
Brenda Powers	408.96	31.96	13,070.36
Todd Roberts	283.51	35.81	10,152.49
Shannon Ryan	474.36	39.35	18,666.07
Carolyn Scheer	497.07	37.77	18,774.33
@ Deb Schmidt	117.46	19.14	2,248.18
Kelly Schultz	202.13	30.26	6,116.45
Melanie Steffens	584.28	37.40	21,852.07
Laura Strait	295.77	39.35	11,638.55
Rhonda Tang	436.57	37.44	16,345.18
Theresa Tometich	640.10	37.40	23,939.74
Bruce VanderSanden	506.68	47.40	24,016.63
Greg Wright	459.52	45.32	20,825.45
Total			<u>\$ 432,867.23</u>

^ - Balance calculated using accrual rates established by DAS rules.

@ - The District accrued vacation for the employee at a rate which agreed with DAS rules. However, the District did not increase the employee's accrual rate at the date they became eligible. There was a delay of a few pay periods.

Calculated^			Difference	
Number of			in Hours	Variance
Hours	Rate	Amount		
221.19	\$ 39.35	8,703.83	341.91	\$ 13,454.16
(118.52)	37.40	-	240.24	4,552.33
212.75	39.35	8,371.71	382.10	15,035.64
273.17	41.20	11,254.60	303.06	12,486.08
(129.30)	21.06	-	165.77	768.06
341.36	39.35	13,432.52	308.29	12,131.21
227.45	39.35	8,950.16	347.27	13,665.07
403.16	39.35	15,864.35	240.55	9,465.64
336.62	24.49	8,243.82	55.04	1,347.93
9.70	39.35	381.70	395.99	15,582.20
16.48	39.35	648.49	334.48	13,161.79
(78.90)	47.40	-	282.18	9,635.47
(33.35)	29.69	-	243.32	6,234.01
283.34	29.69	8,412.36	331.87	9,853.22
56.06	39.35	2,205.96	197.08	7,755.10
(123.00)	43.21	-	218.68	4,134.33
(16.34)	33.18	-	229.46	7,071.32
(298.29)	43.26	-	354.20	2,418.67
302.48	31.96	9,667.26	106.48	3,403.10
87.37	35.81	3,128.72	196.14	7,023.77
(80.06)	39.35	-	554.42	18,666.07
247.75	37.77	9,357.52	249.32	9,416.81
122.07	19.14	2,336.42	(4.61)	(88.24)
(36.57)	30.26	-	238.70	6,116.45
277.71	37.40	10,386.35	306.57	11,465.72
54.60	39.35	2,148.51	241.17	9,490.04
301.58	37.44	11,291.16	134.99	5,054.02
(145.25)	37.40	-	785.35	23,939.74
133.26	47.40	6,316.52	373.42	17,700.11
432.00	45.32	19,578.24	27.52	1,247.21
		<u>\$ 160,680.20</u>		<u>\$ 272,187.03</u>

Report on a Review of the
Sixth Judicial District
Department of Correctional Services

Value of Excess Vacation Hours Accrued for Departed Employees as of April 30, 2013
For the period July 1, 2008 through June 30, 2012

Employee Name	Number of Hours	District		Payout per District
		Rate	Amount	
Larry Bergrud	656.00	\$ 36.36	23,852.16	23,852.16
~ Kristine Chafos	15.79	24.93	393.64	393.64
Deb Drahos	258.77	39.74	10,283.52	10,283.52
@ Bob Dvorsky	27.35	36.21	990.34	990.34
Cindy Engler	653.31	45.11	29,470.81	29,470.81
John Hannaford	308.27	45.32	13,970.80	13,970.80
# Gary Hinzman	611.94	60.07	36,759.24	36,759.24
~ William Hoekstra	20.73	14.42	298.93	298.93
Gail Juvik	589.17	39.74	23,413.62	23,413.62
Bruce Kittle	95.37	37.45	3,571.61	3,571.61
Steve Konarske	254.25	37.45	9,521.66	9,521.66
# Jean Kuehl	635.64	47.87	30,428.09	30,428.09
Jane Mason	42.11	23.30	981.16	981.16
Mike Meeks	656.00	39.21	25,721.76	25,721.76
Nicole Pizzini	233.31	34.06	7,946.54	7,946.54
Beth Skinner	233.78	28.75	6,721.18	6,721.18
Steve Street	656.00	36.36	23,852.16	23,852.16
Total				<u>\$ 248,177.22</u>

^ - Balance calculated using accrual rates established by DAS rules.

- Employee retired after April 30, 2013. The vacation balances shown are as of their retirement date.

~ - The District accrued vacation for the employee at a rate which agreed with DAS rules. However, the District accrued only 3.51 hours for William Hoekstra for the pay period ended 11/26/09 instead of 3.69 hours.

@ - The District accrued vacation for the employee at a rate which agreed with DAS rules. However, the District did not increase the employees' accrual rate at the date they became eligible. There was a delay of a few pay periods.

Calculated^			Difference	
Number of			in Hours	Variance
Hours	Rate	Amount		
411.98	\$ 36.36	14,979.59	244.02	\$ 8,872.57
15.79	24.93	393.64	-	-
-	39.74	-	258.77	10,283.52
38.61	36.21	1,398.07	(11.26)	(407.73)
137.41	45.11	6,198.57	515.90	23,272.24
-	45.32	-	308.27	13,970.80
378.98	60.07	22,765.33	232.96	13,993.91
20.91	14.42	301.52	(0.18)	(2.59)
114.82	39.74	4,562.95	474.35	18,850.67
-	37.45	-	95.37	3,571.61
57.42	37.45	2,150.38	196.83	7,371.28
-	47.87	-	635.64	30,428.09
-	23.30	-	42.11	981.16
91.48	39.21	3,586.93	564.52	22,134.83
182.52	34.06	6,216.63	50.79	1,729.91
14.93	28.75	429.24	218.85	6,291.94
412.97	36.36	15,015.59	243.03	8,836.57
		<u>\$ 77,998.44</u>		<u>\$ 170,178.78</u>

Report on a Review of the
Sixth Judicial District
Department of Correctional Services

Excess Sick Leave Hours Accrued for Retired Management Employees
For the period July 1, 2008 through June 30, 2012

Employee Name	Sick Leave Balance in Hours		
	District	Calculated[^]	Difference
Retired employees:			
Larry Bergrud	1,672.75	1,495.55	177.20
~ Bob Dvorsky	271.00	271.00	-
Gary Hinzman	2,669.20	1,831.00	838.20
Steve Konarske	1,070.25	813.55	256.70
Retired employees participating in SLIP:			
Deb Drahos	1,867.50	1,445.70	421.80
Cindy Engler	2,334.00	1,670.35	663.65
Gail Juvik	1,802.20	1,288.30	513.90
Jean Kuehl	1,918.45	1,470.45	448.00
Jane Mason	576.61	427.21	149.40
Mike Meeks	2,350.00	1,749.05	600.95
Steve Street	1,991.70	1,691.05	300.65
Total	18,523.66	14,153.21	4,370.45

[^] - Calculated using accrual rates established by DAS rules.

~ - The District accrued sick leave for the employee at a rate which agreed with DAS rules.

Sick Leave Conversion Rate		
District	Calculated^	Difference
-	-	-
-	-	-
-	-	-
-	-	-
100%	80%	20%
100%	100%	-
100%	80%	20%
100%	80%	20%
60%	60%	-
100%	100%	-
100%	100%	-

Report on a Review of the
Sixth Judicial District
Department of Correctional Services

Excess Sick Leave Hours for Current and Former Management Employees
For the period July 1, 2008 through June 30, 2012

Employee Name	Sick Leave Balance in Hours		
	District	Calculated^	Difference
Mark Achey	1,852.00	1,458.74	393.26
Jerry Allen	1,376.70	1,149.68	227.02
Bob Anderson	1,782.00	1,478.70	303.30
Sam Black	2,236.50	1,673.15	563.35
@ Angela Brubaker	689.66	693.34	(3.68)
~ Kristine Chiafos	248.68	248.68	-
Randy Cole	2,562.50	1,953.30	609.20
Cynthia Dennis	2,201.85	1,628.15	573.70
Greg Fitzpatrick	2,558.90	1,757.70	801.20
Wendy Fowler	1,161.25	873.17	288.08
Cathy Franzenburg	1,695.25	1,276.05	419.20
Dave Garner	2,190.50	1,527.70	662.80
John Hannaford	1,191.04	1,034.90	156.14
@ William Hoekstra	155.35	166.29	(10.94)
~ Bruce Kittle	362.00	362.00	-
@ Melinda Lamb	202.96	207.98	(5.02)
Brenda Larkey	1,189.10	950.60	238.50
Sharee Lind	1,449.25	1,151.80	297.45
Kim McIrvin	940.50	875.78	64.72
@ Robert Metzger	240.88	242.72	(1.84)
Shari Miller	75.79	72.11	3.68
Bobbie Peters	1,460.00	1,052.80	407.20
Nicole Pizzini	195.00	191.48	3.52
Brenda Powers	2,089.00	1,535.10	553.90
Todd Robert	587.80	585.96	1.84
Shannon Ryan	1,384.00	964.80	419.20
Carolyn Scheer	1,867.75	1,462.55	405.20
Deb Schmidt	752.36	734.84	17.52
@ Kelly Schultz	216.75	218.59	(1.84)
@ Beth Skinner	502.32	517.08	(14.76)

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For the period July 1, 2008 through June 30, 2012

Employee Name	Sick Leave Balance in Hours		
	District	Calculated[^]	Difference
Melanie Steffens	1,319.50	1,066.54	252.96
Laura Strait	1,408.31	1,115.03	293.28
Rhonda Tang	1,681.00	1,267.32	413.68
Theresa Tometich	1,739.40	1,400.95	338.45
Bruce VanderSanden	2,402.40	1,716.00	686.40
Greg Wright	922.22	893.62	28.60
Total	44,890.47	35,505.20	9,385.27

[^] - Calculated using accrual rates established by DAS rules.

~ - The District accrued sick leave for the employee at a rate which agreed with DAS rules.


@ - The District accrued sick leave for all management employees at a rate of 12 hours per month, regardless of the employee's accumulated sick leave. However, the accrual rates established by DAS rules are affected by the employee's accumulated sick leave. Based on these employees' sick leave balances, they should have accrued more than 12 hours of sick leave per month.

Report on a Review of the
Sixth Judicial District
Department of Correctional Services

Staff

This review was performed by:

Annette K. Campbell, CPA, Director
Melissa J. Knoll-Speer, Senior Auditor II
Justin M. Scherrman, Senior Auditor
Kaylynn D. Short, Assistant Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendix

Report on a Review of the
Sixth Judicial District
Department of Correctional Services

E-mail message from Gary Hinzman

From: "Hinzman, Gary [DOC]" <Gary.Hinzman@iowa.gov>
To: "Knoll-Speer, Melissa [AOS]" <melissa.knoll-speer@auditor.state.ia.us>
Date: 10/18/2012 3:49 PM
Subject: RE: 6th Judicial District

Good afternoon Melissa,

Sorry for the delay. I have been on the road today.

Actually we never thought we were working with either entity on FEMA. Early in the process we joined a conference call with DOC but explained that we did not anticipate asking for or getting FEMA money and were excused from the call. Of course at that time we did not know the extent or duration that we would have to continue to hold Linn County Jail prisoners.

As time wore on and we began to see that keeping the Linn County Jail prisoners was going to be longer term Linn County wanted to do an agreement for their placement with the Sixth District. This was a regular agreement for us to hold prisoners for Linn County and the only discussion regarding to FEMA was Linn County would handle all that and they did not want us to. Nobody knew at that time what was eligible but we were pretty sure the Sixth Judicial District Department of Correctional Services was not eligible to apply.

Linn County had to make our facility compliant to be an alternative County Jail and told us not to do or pay for anything or it could jeopardize them. So we let Linn County handle all of that. We never got involved in any matters with regard to FEMA. We had an agreement with Linn County for their prisoners and they knew they may or may not get reimbursed by FEMA for prisoner care. They were paying from either their general fund or reserve fund in 2009. The last time I checked with the Linn County Sheriff in June of 2012 they had not yet been reimbursed by FEMA.

Additionally during this time we made our Human Resource Building available to the Courts, the County Attorney, the Clerk, and for the Jail Booking Operation. We did not ask for or get reimbursement for that. I think this clearly demonstrates that we never were trying to make money off this emergency but stepping up during a crisis to aid our community.

The long term care for the jail prisoners became more costly than our budget could absorb. If not for that we would have told Linn County we would keep them for nothing. We did not believe we qualified for FEMA money, and never asked for it. Linn County asked us to hold their prisoners, they negotiated the rate, and they kept the prisoner count. Linn county also did the same type of agreement in Jones County. The Jones County Supervisors told Linn County they would hold prisoners via an agreement but it was Linn Count's responsibility to work with FEMA. The Sixth Judicial District Board of Directors (with one of the Jones County Supervisors as a member) maintained the same position.

One other thing I wanted to ask Melissa. When Deb Drahos sent the expenditures regarding how the money for housing the prisoners was spent did she mention the day to day operational costs of housing the prisoners, like food, utilities, etc.? I am not clear if you wanted that or if it was sent to you. The Nelson Center was over half filled with Linn County prisoners for eight or nine months.

Please let me know if I can be helpful in any other way.

Gary